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State of Montana
Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

UNIVERSITY OF MONTANA

Financial-Compliance Audit for the

Two Fiscal Years Ended June 30, 1987

This report contains recommendations to assist the university in improving its operations. Recommendations address several areas including:

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- Implementing procedures to more closely review transactions to ensure the State-wide Budgeting and Accounting System contains accurate information.
- Improving internal controls over inventories, payroll records, and fixed assets.
- Reporting proper student full-time equivalents (FTE).
- Complying with state laws and university policies related to appropriations, annual leave, phone usage, and purchasing.
- Complying with federal regulations concerning administration of federal financial assistance programs.

Direct comments/inquiries to:
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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. The Office of the Legislative Auditor issues a biennial Single Audit Report for the state of Montana which fulfills those requirements on a statewide basis. The audit report presented here is therefore not intended to meet all reporting requirements of the Single Audit Act of 1984 and OMB Circular A-128.

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:
JAMES GILLETT
FINANCIAL COMPLIANCE AUDITS
JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:
JOHN W. NORTHEY

June 1988

The Legislative Audit Committee
of the Montana State Legislature:

This report is the result of our audit of the University of Montana for fiscal years 1985-86 and 1986-87. The university's response to each of the recommendations contained herein is at the end of the report.

We wish to express our appreciation to the University of Montana president and staff for their cooperation and assistance.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

UNIVERSITY OF MONTANA

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1987

Audit staff participating in this audit include Vickie Rauser, Lorry Parriman, Renee Foster, Susan Fleming, Laurie Evans, Amy Vanica, and Lisa Warburton.

TABLE OF CONTENTS

	Page
Appointive and Administrative Officials	iii
Summary of Recommendations	iv
Introduction	1
Background	1
Prior Audit Recommendations	2
Controller's Office	3
Inventories	7
Physical Plant	8
Valuation	8
Inventory Procedures	9
Chemistry Stores	10
Expenditure Abatements	13
Stadium	14
Property, Plant & Equipment	15
PAMS Updates	15
Capitalization of Fixed Assets	16
Summary	17
Accounting Records	19
Federal Compliance	27
Guaranteed Student Loan Processing	27
Guaranteed Student Loan Reporting	28
Untimely Grant and Contract Report Submissions	29
Overcharge on Final Grant Billing	31
State Compliance	31
Contracted Services	32
Annual Leave for Academic Administrators	33

TABLE OF CONTENTS (continued)

	Page
Telephone Usage	33
Internal Control	34
Student Time Cards	34
Leave Records and Termination Pay	35
Compensatory Time Records	36
Student Full-time Equivalents (FTEs)	37
Conversion of Semester FTE to Quarter FTE	37
Restricted FTEs	38
Accounts Receivable	39
Auditor's Opinion Letter and University Financial Statements	
Summary of Audit Opinion	
Auditor's Opinion Letter	41
Balance Sheet, June 30, 1987	43
Statement of Current Funds Revenues, Expenditures and Other Changes, Year Ended June 30, 1987	44
Statement of Current Funds Revenue, Expenditures and Other Changes, Year Ended June 30, 1986	45
Statement of Changes in Fund Balance, Year Ended June 30, 1987	46
Statement of Changes in Fund Balance, Year Ended June 30, 1986	47
Notes to Financial Statements	48
Schedule of Student Full-Time Equivalents June 30, 1987	55
Schedule of Student Full-Time Equivalents June 30, 1986	56
University Response	57

APPOINTIVE AND ADMINISTRATIVE OFFICIALS

BOARD OF REGENTS OF HIGHER EDUCATION

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*ex officio member

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Barbara Hollman	Dean of Students
Sylvia Weisenburger	Director of Internal Control
George Mitchell	Director of Financial Services
Kay Cotton	Controller

UNIVERSITY OF MONTANA LOCAL EXECUTIVE BOARD

Philip D. Campbell
Robert L. Deschamps III
Alex M. Stephanzoff

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

	PAGE
Recommendation #1	
We recommend the university:	
A. Remove obsolete items from inventory.	9
University Response: Concur. See page 58.	
B. Determine and document the cost per unit for inventory items.	9
University Response: Concur. See page 58.	
Recommendation #2	
We recommend the university:	
A. Document inventory procedures at the physical plant including guidelines for count verification.	10
University Response: Concur. See page 58.	
B. Implement procedures to provide for supervision and review of data input to the inventory system.	10
University Response: Concur. See page 58.	
Recommendation #3	
We recommend the university:	
A. Allocate resources to properly value chemistry stores inventory.	12
University Response: Concur. See page 59.	
B. Implement additional procedures to provide for accurate physical counts of chemistry stores inventory.	13
University Response: Concur. See page 59.	
C. Implement procedures to ensure chemistry stores issuance records are accurate.	13
University Response: Do not concur. See page 59.	
D. Segregate current and obsolete chemistry stores inventories.	13
University Response: Concur. See page 59.	

SUMMARY OF RECOMMENDATIONS
(continued)

	PAGE
Recommendation #4 We recommend the university continue to properly account for revenues resulting from lost library books.	13
University Response: Concur. See page 59.	
Recommendation #5 We recommend the university adjust its financial records to reflect the value of the stadium in accordance with generally accepted accounting principles.	15
University Response: Concur. See page 59.	
Recommendation #6 We recommend the university continue its efforts to adequately control and accurately account for its fixed assets.	18
University Response: Concur. See page 60.	
Recommendation #7 We recommend the university implement procedures to ensure accounting transactions are recorded accurately.	27
University Response: Concur. See page 60.	
Recommendation #8 We recommend the university: A. Follow its established procedures for completing GSL worksheets.	28
University Response: Concur. See page 60.	
B. Implement written procedures to improve GSL application reviews.	28
University Response: Concur. See page 60.	
Recommendation #9 We recommend the university submit student confirmation reports and notify lenders of enrollment status changes in accordance with federal regulations.	29
University Response: Concur. See page 61.	

SUMMARY OF RECOMMENDATIONS
(continued)

PAGE

Recommendation #10
We recommend the university:
A. Obtain written extensions for those reports which cannot be submitted on time. 31

University Response: Concur. See page 61.

B. Allocate the resources necessary to ensure grant reports are completed in a timely manner. 31

University Response: Concur. See page 61.

Recommendation #11
We recommend the university bill reimbursement grants and contracts only for actual expenditures incurred. 31

University Response: Concur. See page 61.

Recommendation #12
We recommend the university comply with its policies regarding annual leave balances. 33

University Response: Concur. See page 62.

Recommendation #13
We recommend the university continue monitoring telephone bills to ensure calls are for legitimate state business. 33

University Response: Concur. See page 62.

Recommendation #14
We recommend the university implement further procedures to ensure students are paid the proper amount for hours actually worked. 35

University Response: Concur. See page 62.

Recommendation #15
We recommend the university continue to ensure its personnel technicians receive the training necessary to maintain accurate leave records. 35

University Response: Concur. See page 63.

SUMMARY OF RECOMMENDATIONS
(continued)

PAGE

Recommendation #16
We recommend the university communicate compensatory time policies to affected employees. 37

University Response: Concur. See page 63.

Recommendation #17
We recommend the university calculate and report student FTEs in accordance with policies established by the Commissioner of Higher Education. 39

University Response: Concur. See page 63.

Recommendation #18
We recommend the university develop accounts receivable billing policies and procedures for departments controlling their own receivables or centralize all receivables through the Controller's Office. 40

University Response: Concur. See page 63.

INTRODUCTION

We performed a financial compliance audit of the University of Montana for the fiscal years ending June 30, 1986, and June 30, 1987. We performed the audit in accordance with the requirements of the Single Audit Act of 1984 and the Office of Management and Budget Circular A-128. We completed specific audit tests related to financial aid programs and the university's contracts and grants for the two fiscal years ended June 30, 1987.

The objectives of our audit were to:

1. Make recommendations for the improvement of management and internal controls.

2. Determine if the university complied with applicable state and federal laws and regulations.

3. Determine if the financial statements of the university present fairly its financial position and results of operations for the fiscal years ended June 30, 1986, and June 30, 1987.

4. Determine whether prior audit recommendations have been effectively implemented.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

BACKGROUND

The University of Montana was chartered by the Montana Legislature in 1893. Today it is a multi-purpose university financed primarily by state appropriations, student fees, and auxiliary enterprises such as resident halls, food services, and the student union. The university serves approximately 8,000 student full-time equivalents (FTE). According to estimates provided by the Office of the Commissioner of Higher Education, the university had approximately 1,227.67 employee FTE during fiscal year 1986-87. The number of FTE by classification is shown in the following schedule.

UNIVERSITY OF MONTANA
ESTIMATED EMPLOYEE FTE
FISCAL YEAR 1986-87

	Appropriated Funds	Nonappropriated Funds	Total
Contract Faculty	393.71	0	393.71
Contract Professional & Administrative	107.01	5.99	113.00
Classified	322.67	115.13	437.80
Graduate Teaching Assistant	55.36	0	55.36
Graduate Research Assistant	2.29	0	2.29
Part-time & Other	15.94	60.16	76.10
Total Restricted Fund	0	149.41	149.41
Total	896.98	330.69	1,227.67

Compiled by the Commissioner of Higher Education

The Board of Regents of Higher Education provides general control and supervision of the university. Day-to-day operations are directed by the university president and staff. Operations and facilities include the Missoula campus, the Biological Research Station at Yellow Bay on Flathead Lake, the Lubrecht Experimental Forest east of Missoula, and a graduate degree program at Malmstrom Air Force Base in Great Falls.

PRIOR AUDIT RECOMMENDATIONS

Our office performed the University of Montana audit for the two fiscal years ended June 30, 1985. The report contained 13 recommendations still applicable to the university. The university implemented ten and did not implement three. The university concurred with all recommendations not implemented.

Recommendations not fully implemented deal with internal controls over payroll information and with federal compliance issues. This report again contains recommendations in these areas.

We stated in our prior report that we would review new systems related to accounts receivable and the university's physical plant inventory during the audit of the two fiscal years ended June 30, 1987. Specifically, we stated previous problems in the accounts receivable area may be alleviated with the

implementation of a new accounting system. However, the university did not begin using its new accounting system until fiscal year 1987-88. Consequently, the university has not taken all steps necessary to resolve problems in this area. Accounts receivable are addressed on page 40.

The university's physical plant inventory system was implemented on July 1, 1985. We reviewed this system during our audit and noted several areas of concern which are discussed on pages 7 through 10.

CONTROLLER'S OFFICE

Budget reductions during fiscal years 1985-86 and 1986-87 and the purchase and installation of new computer accounting software resulted in reorganizations within the Controller's Office, one of the functions controlled by the Vice President for Administration and Finance. The current organization chart for Administration and Finance is on page 6 and was implemented September 1, 1987.

During fiscal year 1984-85, the Controller's Office began planning for the implementation of a new accounting system, the College and University Financial System (CUFS). The original implementation date was July 1, 1986. Problems encountered in meeting various milestone dates delayed implementation until July 1987. At that time, the university began processing fiscal year 1987-88 transactions through CUFS. Personnel encountered many problems related both to the CUFS software and the computer hardware it runs on. The system was to be designed to allow the university to transmit its detailed transactions to the Statewide Budgeting and Accounting System (SBAS), the state of Montana's official accounting records. However, a computer program did not work properly and the university did not transmit any material amount of transactions to SBAS until October 1987.

Many of the problems encountered in the implementation of CUFS are attributable to the Controller's Office and the university computer center not having adequate resources when needed. According to university personnel, the contract to purchase CUFS entitles the university to subsequent versions, or enhancements of the software. The university received notice from the supplier that the newest version of CUFS could be delivered on April 1, 1987. University officials chose to implement under the newest version after deciding the implementation date of July 1, 1987 could still be met. However, the

CUFS software did not arrive until June 28, 1987. The first programs were not operational until August 29, 1987, due to insufficient memory space within the existing hardware and insufficient personnel needed to write programs for the conversion. This is one of the first sites to have the CUFS software installed on the brand of computer used by the university, and this created further delays while both the supplier and the university worked to modify programs.

The university did not run parallel systems (the old with the new) in order to test the new system before completing the conversion to CUFS. University officials stated running parallel systems would have been too costly in that the Controller's Office would have had to double its staff and the computer equipment was not capable of handling the volume of information.

Running parallel systems would have prevented the delay in transmitting transactions to SBAS and would also have prevented the need for a $600,000 increase in the university's contingent revolving fund. State warrants could not be written because of the problems in transmitting to SBAS and problems with the university's warrant writer program. The university delayed payments to vendors for as long as it could and then used its contingent revolving fund to pay vendors through October 1987. The university continued to use its contingent revolving fund to pay some vendors through February 1988. The university made the final decrease to reach the original contingent revolving fund balance of $305,000 in March 1988.

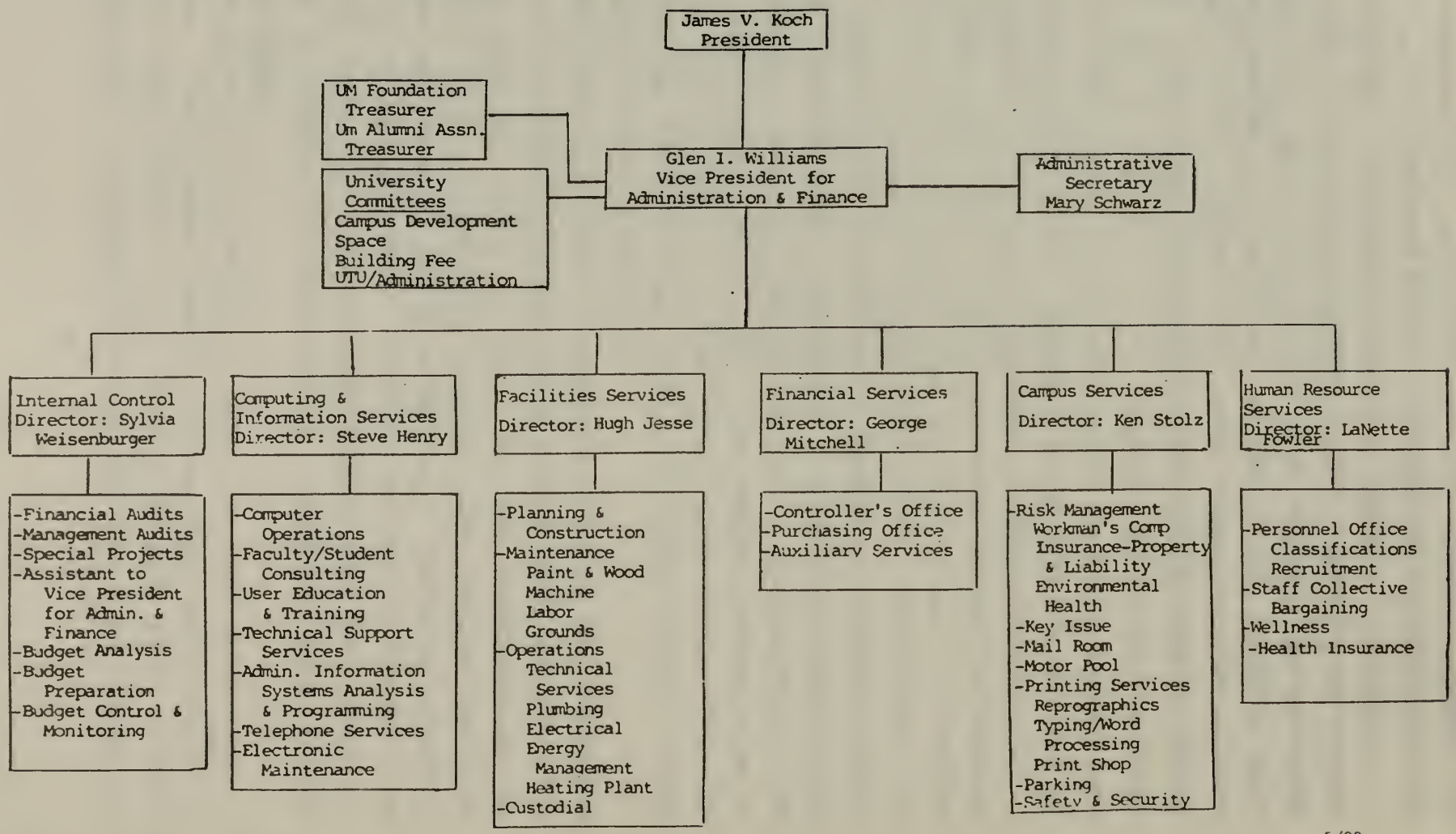
The problems encountered in implementing CUFS and staff reorganization significantly increased the Controller's Office workload during fiscal year 1986-87 and fiscal year 1987-88 to date. The final reorganization of the Controller's Office to accommodate accounting along functional lines rather than fund type was put on hold for several months. This placed an additional burden on the Controller's Office. Employees began working with both a new accounting system and unfamiliar accounts during fiscal year 1986-87, in addition to consulting with other staff on a significant amount of their previous workload.

We asked university officials to analyze the CUFS implementation in retrospect. Their response indicated they had been overly optimistic to believe a major conversion such as this could be made without temporarily increasing staff. The officials further stated that prior to the purchase they

had contacted a majority of current CUFS users. These contacts indicated users were pleased with the system once it was fully operational.

This section is presented for background information. Controller's Office personnel are continuing to work on reducing the backlog of data entry and on distributing various financial reports efficiently. The changes which took place in the Controller's Office during the audit period are contributing factors in several of the report sections which follow, specifically sections dealing with internal controls over various assets and errors in the accounting records.

ORGANIZATION CHART
Vice President for Administation & Finance



Source: University of Montana

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INVENTORIES

At June 30, 1987, the university reported approximately $1,617,000 in inventories. These inventories consisted of supplies and repair parts in the General Operating, Designated, and Auxiliary Funds. We have made various inventory recommendations to the university in the past. The university's largest supply inventory is the physical plant inventory. The financial audit reports covering the two fiscal years ended June 30, 1981, and June 30, 1983, recommended the university establish policies and procedures to properly account for and control inventories. In addition to the financial audits, our performance audit staff issued an audit survey in October 1984 dealing with the university's physical plant (report #84S-8). The two reports and the survey identified the following concerns related to the physical plant as well as other inventories:

1. No segregation of duties.
2. No fixed responsibility for physical control.
3. No segregation of new, used, and obsolete items.
4. No usage records to determine whether quantities on hand were excessive.
5. An apparent lack of communication within the physical plant organization and between the physical plant and other university departments.
6. Non-warehouse functions performed by warehouse staff, such as custodial work and filling in for central receiving and mail delivery.

The problems noted above resulted in qualified opinions on the university's financial statements for the two fiscal years ending June 30, 1981, and for the two fiscal years ending June 30, 1983. A qualified opinion means a reader of financial statements must use caution when analyzing financial position or results of operations.

The university began developing an automated inventory system to account for the physical plant inventory during fiscal year 1984-85. The system was implemented on July 1, 1985. Implementation followed a complete physical count of inventory as of June 30, 1985, which included assigning a cost value to each item based on historical records when available. If

historical cost was not available, the value assigned was based on current trade catalogs. In some cases university personnel used a "best estimate." The system was designed to provide a perpetual record of items on hand as well as usage records. We issued an unqualified opinion on the university's financial statements for the two fiscal years ended June 30, 1985. An unqualified opinion means a reader of financial statements may rely on the information presented.

Physical plant personnel began weekly physical counts of the inventory on a section-by-section basis beginning in March 1986. They were assisted by Controller's Office personnel. The purpose of a physical count is to ensure the perpetual system contains accurate information. According to university personnel, they followed these procedures through February 1987. At that time reorganization and increased emphasis on the new accounting system forced the Controller's Office to cease providing assistance for weekly counts. Physical plant personnel informed us that physical counts from March 1987 through June 1987 were conducted only as time permitted. According to university officials, the university reassigned physical plant management responsibilities in June 1987, after it became apparent the physical plant was in need of more active management. These factors contributed to the problems discussed below. University officials have indicated present physical plant management is working to identify and dispose of obsolete inventory as well as excessive quantities of usable inventory.

Physical Plant

Valuation

The physical plant includes obsolete items in inventory resulting in an overstatement of the inventory. Physical plant and Controller's Office personnel have indicated to us the physical plant inventory also contains excessive quantities of usable inventory. Based on their most recent information, university personnel stated that excessive quantities of usable inventory and the obsolete inventory account for $200,000-$400,000 of the $865,000 of recorded physical plant supply inventory. These items should be identified and removed from the inventory. Physical plant personnel stated obsolete items have not been removed from inventory because they have

lacked resources necessary to do so. University officials have indicated to us they are in the process of reducing this inventory to a manageable size.

We selected a sample of 18 stock categories to determine whether per unit costs were reasonable. Physical plant personnel could provide no support for four of these per unit costs. The items in question were not a part of the initial recording. The results of our testing indicate per unit costs for some individual items in the inventory are not reliable. The university did not retain the records used to determine costs per unit for those items recorded after the initial input at June 30, 1985. Therefore, we could not determine whether the physical plant inventory was valued at the lower of cost or market as required by generally accepted accounting principles (GAAP).

RECOMMENDATION #1

WE RECOMMEND THE UNIVERSITY:

A. REMOVE OBSOLETE ITEMS FROM INVENTORY.

B. DETERMINE AND DOCUMENT THE COST PER UNIT FOR INVENTORY ITEMS.

Inventory Procedures

The physical plant does not have written procedures to ensure accurate counts are obtained and the inventory system is properly updated. Personnel do not believe written procedures are necessary because they know the procedures and are involved in taking the physical inventory. However, if the two people who know the inventory procedures were to leave, there is a potential for inaccurate inventory counts, subsequent errors in the inventory system, and a misstated inventory balance on the accounting records.

When there are discrepancies between physical counts and the inventory system, the count teams do not always recount the items before the system is updated. Personnel stated they use a ten percent difference on quantity as a rule of thumb but also consider the dollar amount and the items susceptibility to misuse or loss. During our observation of inventory counts we test counted 14 stock categories and noted the count teams miscounted two of these. The counts were off by one unit each and the inventory system was updated with the incorrect quantity information because the count was not verified. In one

instance the difference was greater than ten percent and in the other the difference was less than ten percent. Because it may, in fact, not be cost-beneficial to verify counts in all instances, the university should justify and document guidelines for verification.

In addition to the counts made during our observation, we counted 50 stock categories and compared our counts to the quantities on hand per the system. Eleven of these counts did not agree to the system. The differences ranged from one unit to 28 units. Physical plant personnel could not reconcile nine of the differences, attributed one difference to an estimation error, and stated one item should not have been included in the inventory in the first place.

We also noted a lack of segregation of duties at the physical plant. An employee who has access to the computer system is always a member of the count team. Employees involved in the physical counts should not have the authority to adjust inventory figures on the computer system because this increases the potential for errors and irregularities to remain undetected. Physical plant personnel indicated the physical plant staff is not large enough to provide for a complete segregation of duties. The university should provide for supervision and review of input to the inventory system. If segregation is not possible, adequate supervision and review procedures should provide further assurance the inventory system contains accurate information.

RECOMMENDATION #2

WE RECOMMEND THE UNIVERSITY:

A. DOCUMENT INVENTORY PROCEDURES AT THE PHYSICAL PLANT INCLUDING GUIDELINES FOR COUNT VERIFICATION.

B. IMPLEMENT PROCEDURES TO PROVIDE FOR SUPERVISION AND REVIEW OF DATA INPUT TO THE INVENTORY SYSTEM.

Chemistry Stores

Chemical stores inventory consists of chemicals and equipment held for resale to students and university departments. The inventory was valued at approximately $82,000 at June 30, 1987 according to university records. We observed the physical count of this inventory and identified areas where procedures should be improved. The following paragraphs discuss our findings

concerning valuation, physical counts, record keeping, organization and obsolete items.

Inventory valuation, according to GAAP, should be at the lower of cost or market. Chemistry stores values inventory using a modified replacement cost consisting of the list price at the time of the most recent purchase less a set discount programmed into its automated inventory system. The computer program was written several years ago and has not been updated. The university has not placed an update of this system on a priority listing for obtaining computer center resources. According to chemistry stores personnel, both inventory and fund balance may be overstated at June 30, 1987, by as much as 60 percent because the discounts allowed on items purchased by chemistry stores have increased over time.

The university can resolve this problem by giving the computer system update a higher priority or by developing manual records in addition to the automated system. Chemistry stores personnel could manually adjust the dollar amount of inventory to provide accurate cost information. This would require a change in the way items are recorded on the inventory system. Chemistry stores personnel could enter the cost per unit as provided on the purchase invoices. Chemistry stores personnel could later determine the actual cost of inventory items by dividing the unit cost on the system by the applicable discount. This procedure would only be needed at fiscal year end to ensure inventory is recorded in accordance with GAAP and would not result in a significant cost to implement.

Recording inventory in accordance with GAAP also depends on accurate physical counts and accurate issuance records. Chemistry stores could improve its procedures to ensure an accurate count is obtained and the inventory system is properly updated. The inventory count sheets include expected quantities on hand. Chemistry stores personnel believe the count teams need to know the expected quantities so they can count using the proper units of measurement. This could impair the reliability of the physical counts because members of the count team may rely on the listed quantities when discrepancies exist rather than recounting the items. The university should use count sheets which indicate the unit of measure without identifying the quantity on hand.

Chemistry stores personnel controlled access to the inventory to the extent that people who were not familiar to chemistry stores personnel were not allowed access. However, the manner in which customers obtain their purchases, combined with checkout procedures weakens safeguards over these assets. Chemistry stores personnel do not have adequate procedures to ensure that the items sold or issued from the store are properly accounted for. Customers enter the storeroom, make their selection, and then complete issuance cards with the item names and quantities. Chemistry stores personnel do not verify the items and quantities are correct before the customer leaves. The information on these cards is used to update the inventory system. This practice increases the possibility that inventories and revenues will be misstated. We noted one instance in 20 stock categories tested where the inventory system was updated incorrectly. The purchase of the last unit was incorrectly recorded and, subsequently, the inventory system indicated there were 499 grams of the chemical on hand when in fact there was nothing on hand. Chemistry stores personnel could avoid this type of situation by completing the issuance cards themselves.

During our observations we noted a general lack of physical organization in chemistry stores. Inventory, donated items and miscellaneous supplies should be arranged in an orderly manner. The lack of organization could result in items being incorrectly included in or excluded from inventory. There is limited storage space in chemistry stores so organization may be difficult but not impossible.

The chemistry stores inventory includes obsolete chemicals which should be properly disposed of and removed from the inventory records to reduce the potential for overstating inventory. According to chemistry stores personnel, the obsolete chemical items have not been disposed of and removed from inventory because they are considered hazardous wastes upon removal from inventory and are difficult to dispose of. These items should, however, be clearly identified and segregated from the current inventory.

RECOMMENDATION #3

WE RECOMMEND THE UNIVERSITY:

A. ALLOCATE RESOURCES TO PROPERLY VALUE CHEMISTRY STORES INVENTORY.

B. IMPLEMENT ADDITIONAL PROCEDURES TO PROVIDE FOR ACCURATE PHYSICAL COUNTS OF CHEMISTRY STORES INVENTORY.

C. IMPLEMENT PROCEDURES TO ENSURE CHEMISTRY STORES ISSUANCE RECORDS ARE ACCURATE.

D. SEGREGATE CURRENT AND OBSOLETE CHEMISTRY STORES INVENTORIES.

EXPENDITURE ABATEMENTS

Receiving cash or establishing a receivable can result in recognition of revenue or in abatements of expenditures. An abatement has the effect of reducing expenditures and, according to university accounting policies, should be made only for the correction of an error or for a reimbursement of an amount previously expended solely for the convenience of another.

In the past, the university has billed students for the cost of lost library books and established receivables. The university abated expenditures instead of recognizing revenue in these transactions. The university should have recognized revenue because these transactions do not meet the criteria for expenditure abatements. This activity was recorded in the General Operating fund through fiscal year 1986-87 and had the effect of expanding appropriation authority. When the university abated expenditures, a corresponding amount of appropriation authority was then made available for future use. These procedures understated revenues and expenditures in the General Operating fund by $22,300 in fiscal year 1986-87.

The university reclassified this activity in fiscal year 1987-88 and now accounts for it in the Designated Fund. The receipt of cash and/or establishment of a receivable now results in recognition of revenue.

RECOMMENDATION #4

WE RECOMMEND THE UNIVERSITY CONTINUE TO PROPERLY ACCOUNT FOR REVENUES RESULTING FROM LOST LIBRARY BOOKS.

STADIUM

The university entered into a lease agreement with the University of Montana Foundation in December 1985 for the purpose of building the Washington Grizzly Stadium. The Foundation was responsible for the construction and then donated the stadium to the university. The project was funded with proceeds from bond issues, cash donations, and in-kind donations. The 48th Legislature, through a Senate joint resolution, granted the university permission to construct a stadium as long as the university requested no General Fund assistance for the project. The lease agreement included provisions that the university contribute $751,000 towards the project and establish a $100,000 contingency account for unexpected cost overruns on the project. The university's contribution and the contingency funds came from a bond issue.

The stadium was substantially complete by June 30, 1987. The university had, by that time, used the stadium facilities three separate times. Each of the events was covered by a lease agreement between the university and the Foundation. The university did not consider the stadium to be its property until September 1987, when (1) the structure had been formally accepted by the Department of Administration's Architecture and Engineering Division and by the university, and (2) title to the structure had been transferred from the Foundation to the university. The foundation informed the university the stadium cost $2,803,428. However, this figure includes, according to Foundation and university officials, the cash outlays only. In-kind gifts and donations were not included. Generally accepted accounting principles (GAAP) state donated assets are to be recorded at fair market value at the time of receipt. We believe the value of in-kind gifts and donations should have been included in the value of the stadium as well as other expenditures incurred by the university to complete the stadium.

The substance of this matter is that the stadium was essentially complete and in use at June 30, 1987 and, therefore, was a university asset. The entire project was for the university's benefit and formalities such as final acceptance and transfer of title would not have precluded the university from recording the stadium at June 30, 1987.

According to the Foundation's audited financial statements, the value of the stadium, as of August 31, 1986, was $4,081,118. The university incurred

costs during fiscal year 1986-87 totalling $17,270 which should also have been capitalized. The university did not adjust its financial records for this activity causing fixed assets to be understated by at least $4,098,388 at June 30, 1987. As of March 31, 1988, the university had not recorded the stadium. The university should adjust its financial records to reflect the actual value of the stadium.

RECOMMENDATION #5

WE RECOMMEND THE UNIVERSITY ADJUST ITS FINANCIAL RECORDS TO REFLECT THE VALUE OF THE STADIUM IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

PROPERTY, PLANT & EQUIPMENT

The university has a history of recurring problems related to recording property, plant and equipment which has been and continues to be a low priority. The problems outlined below have not resulted in material misstatements in relation to the total value of the fixed assets but are indicative of the types of problems we found. Although we discuss concerns that have been the subject of recommendations in the past, we note the university has made an effort to safeguard and control its property, plant and equipment. As a result, the number of problems identified in this area has decreased.

PAMS Updates

State accounting policy requires the university to capitalize fixed assets, such as equipment and buildings, if the cost or value of the item is $200 or more. The university's accounting and PAMS records were not completely updated at June 30, 1986, or 1987, for acquisition and disposal of equipment items made during May and June. The university adjusted its financial statements for the accumulated effect from May and June activity. This amounted to net increases of $148,256 and $34,962 to equipment at June 30, 1986 and 1987, respectively.

The documents used to remove equipment from the accounting records are not processed timely. The Controller's Office may receive notices of disposals

too late to process the necessary documents in the appropriate fiscal year. The primary reason for not updating PAMS and the accounting records for acquisitions during the last months of the fiscal year is the university does not receive "Property Action Required Lists" (PARL) until the month following payment for the item. University personnel then spend approximately a month analyzing the PARLs to determine if the acquisition should be capitalized. The PARL is a list of equipment and capital expenditures developed to assist personnel in determining whether additional entries to SBAS/PAMS are necessary. According to state accounting policies, the PAMS document and the payment for the asset should be processed concurrently. This procedure would help ensure more timely PAMS and accounting updates.

In addition to purchases of fixed assets, we identified two capital leases for copy machines which should have been recorded on PAMS and the accounting records. University personnel assigned PAMS identification numbers to the copy machines, but did not process the documents to record the assets. The two copy machines are valued at $47,190.

Capitalization of Fixed Assets

We found three instances where the university did not properly capitalize fixed assets. In the first instance, asbestos was removed from the University Center ballroom during fiscal year 1986-87. Generally accepted accounting principles require improvements be capitalized when the cost is substantial or when there is a change in the estimated useful life of an asset. The university's policy is to capitalize expenditures which upgrade buildings to meet current health and safety codes. Costs incurred in asbestos removal meet this criteria and enhance the value of the building. Because the university did not capitalize the asbestos removal costs, the value of buildings and the university's net investment in plant, as recorded at June 30, 1987, are understated by $90,329.

The second instance of improper capitalization concerns the university's purchase of two lots to be used as parking lots. When the houses were removed from the lots during fiscal year 1986-87, the removal costs were not capitalized as part of the land value. Generally accepted accounting principles state that razing and removal costs, less salvage value of structures located on land purchased, are to be added to the cost of the land. Land is

undervalued by $9,729, buildings are overvalued by $97,000 and net investment in plant is overstated by $87,271 on university accounting records at June 30, 1987.

The third instance related to a multi-year construction project. The costs incurred during fiscal year 1985-86 were not included in construction work in process on the accounting records and were not reported on the fiscal year 1985-86 financial statements. State accounting policy states if a capital project is not completed within one fiscal year the portion which is to be capitalized should be recorded as construction work in process. Not capitalizing the fiscal year 1985-86 costs resulted in construction work in process and the net investment in plant being understated by approximately $74,981 at June 30, 1986.

Property management personnel said that the university attempts to record all property, plant and equipment on the accounting records. University personnel did not complete a review to ensure all capital expenditures were capitalized due to time constraints during the fiscal year-end cutoff periods in both fiscal years 1985-86 and 1986-87. University personnel did complete such a review while preparing the fiscal year 1986-87 financial statements and adjusted the statements for the errors and omissions discussed in this section.

Summary

University personnel have estimated it would require two or three employees working full time to adequately monitor and account for all property, plant and equipment items under the current state policy of capitalizing items costing $200 or more. Another option would be to assign responsibility for equipment items at the department level. We made this recommendation in the past but university officials did not concur. Their response is collective bargaining agreements do not enable the university to assign responsibility to individuals. We maintain that, as soon as a piece of equipment is assigned to a location within a department, the department has, in effect, accepted responsibility for the location of that asset.

The problems associated with accounting for a large number of fixed assets is not unique to the University of Montana. The Commissioner of Higher Education (CHE) recently surveyed each campus to determine the percentage breakdowns of equipment items and the associated dollar amounts.

This information has been communicated to the Department of Administration along with a suggestion that the state's definition of capital asset be revised from $200 to $1,000. The University of Montana's asset information is representative of the university system as a whole and is presented in the following table:

UNIVERSITY OF MONTANA
CAPITAL INVENTORY
BY ITEM COUNT AND DOLLAR AMOUNT
MARCH 1988

Dollar Value of Inventory Item	Number of Items	Percentage of Total Items	Dollar Value	Percentage of Total Dollar Value
$ 200 - $ 500	5,941	36%	$ 1,901,973	2%
$ 501 - $ 750	1,639	10%	943,752	1%
$ 751 - $1,000	1,259	7%	1,061,755	1%
$1,000 -	7,843	47%	107,270,546	96%
Total	16,682	100%	$111,178,026	100%

Source: Commissioner of Higher Education

The CHE proposal that the state's definition of capital asset be revised to $1,000 would eliminate 53 percent of the university's items and only 4 percent of its dollar value. System-wide, the eliminations would be 67 percent of the items and 4 percent of the dollar value.

The CHE proposal also contains an assertion that the units will maintain a system of control over the assets which fall below their defined capital asset dollar amount. Most of the costs of a fixed asset inventory system are attributable to control over those assets. CHE should determine whether controlling these assets is cost-beneficial. Considerations include the value of of the assets and their susceptibility to theft and misuse. Regardless of whether the CHE proposal is accepted, the university should continue its efforts to adequately control and accurately account for its fixed assets.

RECOMMENDATION #6

WE RECOMMEND THE UNIVERSITY CONTINUE ITS EFFORTS TO ADEQUATELY CONTROL AND ACCURATELY ACCOUNT FOR ITS FIXED ASSETS.

ACCOUNTING RECORDS

State law requires the accounting records be maintained in accordance with generally accepted accounting principles (GAAP). The Department of Administration's Accounting Division has developed state accounting policies which address GAAP. The Accounting Division develops accounting policies for universities based on the requirements of the National Association of College and University Business Officers and the Governmental Accounting Standards Board. During fiscal years 1985-86 and 1986-87, the Accounting Division issued new accounting policies affecting the university.

The Controller's Office records the university's transactions on SBAS and prepares annual financial statements. As part of the financial statement process, personnel identify errors made in the accounting records and adjust the financial statements to present the university's financial position and results of operations as though the errors had not occurred. The university does not, however, have the opportunity to correct the SBAS records for the fiscal year in which an error occurs. Therefore, the university's SBAS records do not, in all instances, reflect financial activity in accordance with GAAP.

We identified several errors in the accounting records in addition to those identified by the Controller's Office. Some of these errors can be considered to be isolated cases or human error while others resulted from conscious decisions made by university personnel. The quantity of errors indicates review procedures within the Controller's Office were not as effective as they have been in the past. Errors identified are discussed below:

1. GAAP for universities require summer quarter tuition and fees be deferred to the next fiscal year because that is when most of the quarter's activity takes place. The university does not record these moneys as deferred revenue but as deposits payable. According to university personnel, they use the deposits payable account to track the tuition and fees rather than initiate a SBAS subsidiary detail ledger (SDL) number for the deferred revenue account. University personnel further stated they had attempted to use the SDL function but it is not workable with the present system programming. University personnel must make an adjustment to the financial statements. Summer quarter 1986 and 1987 tuition and fees totalled $411,856 and $452,105, respectively.

2. While completing a reconciliation between recorded revenues and letter of credit drawdowns, the university identified three errors

involving revenue recognition in the current restricted fund records for fiscal year 1985-86. The errors involved U.S. Department of Health and Human Services grants and the U.S. Department of Education - Supplemental Educational Opportunity Grant (SEOG) Program and College Work Study (CWS) Program. The first instance involved a data entry error. University personnel made an error in coding the document but then wrote over the error with the correct account number. However, data entry personnel entered the wrong code. The accounting records show $79,068 more revenue than was earned because of this error.

The other two errors resulted in an overstatement of SEOG (Catalog of Federal Domestic Assistance (CFDA) #84.007) revenue and an understatement of CWS (CFDA #84.033) revenue in the amount of $29,357 as recorded on the accounting records. University personnel processed transactions at fiscal year-end which were intended to make revenues equal expenditures for these programs as required by GAAP. The university adjusted its financial statements for these three errors.

3. The university recognizes student loan (Perkins Loans, formerly National Direct Student Loans, CFDA #84.038) administrative expenditures in one account and later abates these expenditures and charges them to the appropriate accounts. During fiscal year 1985-86, university personnel did not use the same expenditure code to abate as they did to originally record these expenditures. This error caused the accounting records to show an overstatement of administrative expense and an understatement of bad debt expense of $31,042. However, it did not affect the financial statements as expenditures in total were not misstated.

4. GAAP requires universities to eliminate revenues and expenditures created through interdepartmental services except for those services provided to or by auxiliary enterprises. Auxiliary enterprises are to be accounted for in a manner similar to that of private enterprise. All revenues and expenditures generated between auxiliaries and between auxiliaries and other departments are recognized and reported. The university processed interdepartmental elimination transactions which included sales from a food commissary in one auxiliary enterprise to two other auxiliary enterprise food services. The eliminations caused revenue and expenditures in the accounting records to be understated by $772,917 in fiscal year 1985-86 and $750,650 in fiscal year 1986-87. The university adjusted its financial statements for the fiscal year 1986-87 error.

5. The university improperly recognized revenues and expenditures in the Student Loan Fund when it closed one loan fund into another. Revenues and expenditures were overstated by $7,212. The university should have used a residual equity transfer account to demonstrate the permanent nature of the transfer from one account to the other.

6. During fiscal year 1985-86 the university classified its telephone service as a designated fund activity and charged telephone services expenditures to the Academic Support program. These expenditures should be charged to the Institutional Support program. Although expenditures in total were not misstated, the Designated Fund accounting records contain an overstatement of $1,035,000 in the Academic Support program and a corresponding understatement in Institutional Support program.

7. The university made several errors involving transfer transactions during fiscal year 1985-86. These errors included a) recording intrafund activity as transfers instead of using its established mechanism for moving cash from one account to another within the same fund; b) reclassifying accounts from one fund to another which in turn resulted in intrafund transactions; c) recording an interentity loan as a transfer; and d) recording reclassifications as current year transfers instead of prior year adjustments or adjustments to beginning fund balance. These errors also affected other recorded activity such as expenditures, assets, and liabilities. The misstatements on the accounting records are as follows:

Fund	Account Type	Over(Under) Statement
Unexpended Plant	Assets	$(1,438,916)
	Liabilities	(412,541)
	Fund Balance 7-1-85	(3,050,332)
	Expenditures	(768,524)
	Transfers In	5,077,986
	Move Equity to Net Investment in Plant	(179,782)
	Transfers Out	3,642,771
	Fund Balance 7-1-86	(1,026,375)
Renewal and Replacement Plant	Assets	(893,339)
	Liabilities	18,524
	Fund Balance 7-1-85	(1,110,254)
	Revenue	(103,061)
	Expenditures	768,524
	Transfers In	661,883
	Transfers Out	(778,311)
	Move Equity to Net Investment in Plant	(370,218)
	Fund Balance 7-1-86	(911,863)
Retirement of Indebtedness Plant	Assets	1,438,916
	Liabilities	(499,322)
	Fund Balance 7-1-85	4,710,586
	Revenue	103,061
	Transfers In	2,078,607
	Transfers Out	4,954,016
	Fund Balance 7-1-86	1,938,238

8. GAAP for universities recognizes two types of transfers. Mandatory transfers arise out of binding legal agreements such as bond indentures. Nonmandatory transfers are those made at the discretion of the governing board to serve a variety of objectives. The university classified all transfers in the Retirement of Indebtedness Plant Fund as nonmandatory during fiscal year 1985-86. All of these transfers were debt related. The corresponding transfers out were classified as mandatory. Retirement of Indebtedness Fund transfers in, as recorded on the accounting records, totaled $4.4 million. University personnel indicated they processed the transactions in this manner for simplicity and consistency. If the university had properly classified these transfers, personnel would not have had to adjust the financial statements.

During fiscal year 1986-87, the university began processing transfers coded appropriately as mandatory or nonmandatory. We noted only one transaction coded improperly. The university processed a $57,500 transaction as a mandatory transfer when it was

actually a nonmandatory transfer. University personnel inadvertently used the wrong coding.

9. The university recorded a fiscal year 1986-87 transfer in for $725,000 in the Retirement of Indebtedness Plant Fund rather than in the Renewal and Replacement Plant Fund. The university did not make use of a feature in the accounting system called minicoding. This feature allows the university to code only specific parts of a transaction and programming in the accounting system will then complete the coding needed to record the transaction. University personnel maxicoded the document; i.e., filled in the coding for each field, and used the wrong fund coding.

10. The university established a procedure designed to assist personnel in recording transfers of cash between activities accounted for in the same fund. Personnel are to use a revenue object code called "Allocations Within Funds." Proper use of this code allows personnel to track these cash transfers without misstating revenues, expenditures, or transfers in and out. We identified errors in the use of this code during both fiscal years under audit. Two errors occurred in fiscal year 1985-86 and twenty-two occurred in fiscal year 1986-87. Personnel used this object code instead of transfers in and out in 10 instances and in the other 12 instances should have used a different revenue code. These errors resulted in the following misstatements which the university corrected in its financial statement presentation.

Fiscal Year	Fund	Account	Over(Under) Statement
1985-86	General Operating	Expenditures	$31,600
		Transfers Out	(31,600)
	Auxiliary	Revenues	25,000
		Transfers In	(25,000)
	Renewal and Replacement	Revenues	31,600
		Transfers In	(31,600)
	Retirement of Indebtedness	Revenues	(25,000)
		Transfers Out	(25,000)
1986-87	General Operating	Expenditures	39,600
		Transfers Out	(39,600)
	Designated	Revenues - Other Income	5,102,668
		Revenues - Allocations Within Funds	(5,114,321)
		Transfers In	(5,800)
		Transfers Out	(17,453)
	Auxiliary	Revenues - Other Income	1,001,120
		Revenues - Allocations Within Funds	(978,920)
		Transfers In	(28,000)
		Transfers Out	(5,800)
	Renewal & Replacement	Revenues - Allocations Within Funds	29,053
		Transfers In	(57,053)
		Transfers Out	(28,000)

11. At June 30, 1986, the university's recorded bonds payable was overstated by $1,026,282. The overstatement occurred because a transaction was duplicated when agency personnel were processing fiscal year-end adjustments. University personnel adjusted the financial statements to correct this error and processed a correcting transaction in fiscal year 1986-87.

12. During fiscal year 1985-86, the university accounted for a new construction project in the Renewal & Replacement Plant Fund. This fund is to provide for renewal and replacement of plant fund assets rather than acquisition of new plant fund assets. New

construction projects should be accounted for in the Unexpended Plant Fund. The university adjusted its financial statements for fiscal year 1985-86 and processed correcting transactions during fiscal year 1986-87. The accounting records at June 30, 1986 contained these misstatements. Expenditures were overstated and construction work in process understated by $816,383 in the Unexpended Plant Fund. Expenditures were understated and construction in process was overstated by $816,383 in the Renewal & Replacement Plant Fund.

13. The university issued two separate series of bonds during fiscal year 1985-86. One bond issue was used to defease some outstanding bonds and to fund new construction and renewal and replacement projects. The second bond issue was a special purpose issue for the acquisition of computer equipment. The Accounting Division, Department of Administration issued specific accounting policies effective July 1, 1985, dealing with these kinds of activities. The university did not follow the outlined procedures and the result was significant misstatements in bond proceeds, transfers in and out, and the movement of equity to the Net Investment in Plant Fund. The misstatements are as follows:

Fund	Account Type	Over(Under) Statement
Unexpended Plant	Liabilities	$ (167,285)
	Revenues - Bond Proceeds	(4,559,506)
	Transfers In	6,756,731
	Transfers Out	(688,878)
	Move Equity to Net Investments in Plant	(2,718,818)
	Fund Balance 7-1-86	(167,285)
Renewal & Replacement	Assets	(342,216)
	Liabilities	515,457
	Transfers In	168,609
	Move Equity to Net Investment in Plant	(1,026,282)
	Fund Balance 7-1-86	(857,674)
Retirement of Indebtedness	Liabilities	(342,216)
	Revenues - Bond Proceeds	7,956,434
	Transfers In	(137,751)
	Transfers Out	7,476,467
	Fund Balance 7-1-86	342,217
Net Investment in Plant	Liabilities	(348,172)
	Investment in Plant - 7-1-86	348,172

Additionally, the university suffered a loss of $366,041 on the defeasance issue and incorrectly coded this transaction as a payment of bond principal rather than a loss on debt extinguishment.

The university made similar coding errors while recording fiscal year 1986-87 bond activity. A gain of $822,196 on a bond defeasance was coded as "other income" rather than "gain on debt extinguishment" and a loss on an early payment of bonds of $442,351 was coded as a payment of bond principal rather than a loss.

14. The university accounted for certain indirect cost recoveries from federal grant projects in the Current Restricted Fund during fiscal years 1985-86 and 1986-87. The moneys have been earned by the university and the university has discretion over how these funds are used. Therefore, these indirect cost recoveries should be classified as an unrestricted fund activity. Fiscal year 1985-86 revenues totalled $12,139 and expenditures of these recoveries totalled $5,916. Fiscal year 1986-87 revenues and expenditures were $12,733 and $7,176, respectively.

15. The university operates the KUFM radio station on campus. During audit testing we noted payroll for KUFM was charged to the expenditure program "academic support." According to the College and University Business Administration, expenditures for KUFM should be classified as "public service." University personnel agreed expenditures for KUFM were misclassified and indicated they would correct the expenditure program charged. For fiscal year 1985-86 KUFM expenditures of $553,896 were misclassified. Fiscal year 1986-87 misclassified KUFM expenditures totalled $617,223.

The university should establish procedures to more closely review coding on documents in order to enhance the quality of accounting data included on SBAS. These procedures are even more important during this transition phase of implementing a new accounting system and having personnel become familiar with new responsibilities. The university should also reclassify its indirect cost recoveries from the Current Restricted Fund to the Current Unrestricted Fund, and reclassify KUFM expenditures from "academic support" to "public service."

RECOMMENDATION #7

WE RECOMMEND THE UNIVERSITY IMPLEMENT PROCEDURES TO ENSURE ACCOUNTING TRANSACTIONS ARE RECORDED ACCURATELY.

FEDERAL COMPLIANCE

The university received money from various federal agencies during fiscal years 1985-86 and 1986-87. During our audit, we found the following instances of noncompliance with federal regulations.

Guaranteed Student Loan Processing

We tested a sample of 58 Guaranteed Student Loans (GSL) (Catalog of Federal Domestic Assistance #84.032) applications processed during the audit period. The university processed approximately 3,500 GSLs in this time period.

A student received two GSLs for the 1986-87 academic year totalling $4,736. This total exceeded the maximum loan amount allowable under the GSL federal guidelines by $2,111. The excess is not guaranteed and, therefore, the university will be liable for the amount if the student defaults. Financial

Aid personnel stated they did not notice the first loan the student received and determined the eligible amount without noting the previous loan. The Financial Aid Office's GSL application worksheet includes a step to check for previous loans. In this instance, the preparer did not list the student's first GSL. If established procedures had been followed, the loans would not have exceeded the federal maximum.

The university prepared section of GSL applications requires the preparer to fill in a "School Budget" amount equal to the sum of fees, room and board, books, and miscellaneous expenses for an academic year. The fees are estimated based on the student's residency status. We found two nonresident students whose GSL applications listed resident school budget amounts for the 1986-87 school year. Because the nonresident fees are higher than resident fees, the error understated the students' cost of education and may have resulted in these students not receiving all of the financial aid to which they were entitled. These two students' costs of education were understated by $1,134 and $1,266 respectively.

Financial aid personnel, other than the preparer, spot check the university prepared section of the GSL application. Personnel did not review one application with the incorrect school budget amount, and did not catch the error on the other application. Improved application review procedures, including written procedures with a checklist of items to verify, would help detect errors in processing GSLs and determining award amounts. The Financial Aid Office should also consider whether it has the resources to review a greater number of applications as this would also help detect errors.

RECOMMENDATION #8

WE RECOMMEND THE UNIVERSITY:

A. FOLLOW ITS ESTABLISHED PROCEDURES FOR COMPLETING GSL WORKSHEETS.

B. IMPLEMENT WRITTEN PROCEDURES TO IMPROVE GSL APPLICATION REVIEWS.

Guaranteed Student Loan Reporting

Federal regulations (34CFR Part 682.612) require schools participating in the Guaranteed Student Loan Program (CFDA #84.032) to report changes in

participating student's enrollment status to either the central processing company on a student confirmation report (SCR) or directly to the lending institution by letter. The change in the student's enrollment status must be reported within sixty days. During fiscal years 1985-86 and 1986-87, the university submitted SCRs semi-annually and did not notify lending institutions directly. As a result, changes in student's enrollment status were not reported within the required sixty days.

Financial aid personnel indicated notification was not timely because the university was in the process of changing from semi-annual SCR submission to quarterly submission. The university intended to begin quarterly SCR submission as of fall quarter 1986-87, but continues to have difficulty meeting that goal because of computer problems at the central processing company. Quarterly SCRs will not completely solve the university's problem notifying lenders of enrollment changes within 60 days. The university should, as necessary, directly notify lenders of enrollment status changes by letter to meet the 60-day notification requirement.

RECOMMENDATION #9

WE RECOMMEND THE UNIVERSITY SUBMIT STUDENT CONFIRMATION REPORTS AND NOTIFY LENDERS OF ENROLLMENT STATUS CHANGES IN ACCORDANCE WITH FEDERAL REGULATIONS.

Untimely Grant and Contract Report Submissions

Federal regulations outline when quarterly and final financial reports are due from agencies receiving federal grants. Deadlines for grant and contract reports are established in the award agreements. According to federal regulations, quarterly reports are due within 30 days of the end of the reporting period; final reports are due within 90 days of the end of the grant period. Of 18 grants and contracts tested, we found 12 instances, involving 6 grants, of untimely report submissions as follows:

Grant Name	Catalog of Federal Domestic Assistance #	Due Date or Period Covered By Report	Date Report Submitted
Probing Ribosomal Function	13.999	2/14/88	2/19/88
MUAPS Core Grant 1986-87	13.632	2/14/88	2/19/88
Rocky Mountain Trumpeter Swan	15.999	5/1/86 - 10/31/86 This should have been a quarterly report covering 5/1/86 - 7/31/86	11/6/86
		Quarter Ended 7/31/87	Not submitted*
		Quarter Ended 10/31/87	Not submitted*
		Final Report through 12/31/87	Not submitted*
Zoobenthos Flathead River	15.999	Quarter Ended 7/31/87	Not submitted*
		Quarter Ended 10/31/87	Not submitted*
		Quarter Ended 1/31/88	Not submitted*
Cellulosic Material Combustion	11.999	Quarter Ended 8/31/87	Not submitted*
		Quarter Ended 11/30/87	Not submitted*
Effects Storm Water Injection	66.999	11/1/86 - 3/31/87 This should have been a quarterly report covering 11/1/86 - 1/31/87	4/23/87

* As of February 1988.

University personnel indicated some reports were late because of heavy workload or other deadlines that had to be met at the same time. The reports not submitted have not yet been prepared because personnel are waiting for a grant billing system to become operational. Untimely reporting could jeopardize future federal funding. The university should obtain written extensions from federal grantor agencies or arrange workload so that federal reports are submitted on time.

RECOMMENDATION #10

WE RECOMMEND THE UNIVERSITY:

A. OBTAIN WRITTEN EXTENSIONS FOR THOSE REPORTS WHICH CANNOT BE SUBMITTED ON TIME.

B. ALLOCATE THE RESOURCES NECESSARY TO ENSURE GRANT REPORTS ARE COMPLETED IN A TIMELY MANNER.

Overcharge on Final Grant Billing

University personnel stated it is the university's common practice to request the full amount of a grant if actual expenditures approximate the grant amount. This procedure is appropriate only for fixed-price grants and contracts. The university should request funds only to the extent of expenditures incurred for grants and contracts funded on a reimbursement basis. We identified one grant for which the full amount of the grant was billed when the university had not incurred that level of expenditures. The university requested the full amount for the Bees Monitor Trace Elements (CFDA #81.999) grant, $19,253, although actual expenditures totalled only $19,202. Because this was a reimbursement basis grant, the university should bill only for expenses actually incurred. As a result, the university overbilled the federal granting agency $51. We question the allowability of these costs for federal reimbursement. The university should revise its current practice and bill reimbursement grants and contracts only for the amount of actual expenditures.

RECOMMENDATION #11

WE RECOMMEND THE UNIVERSITY BILL REIMBURSEMENT GRANTS AND CONTRACTS ONLY FOR ACTUAL EXPENDITURES INCURRED.

STATE COMPLIANCE

The following sections discuss the university's lack of compliance with state law and both state and university system policies and regulations.

Contracted Services

The performance audit of contracted services performed by our office (report #87P-35) included a review of such services at the university. Overall, we found that of the contracts reviewed, policies and procedures over independent contracts were adequate; contracts appeared effective and for reasonable amounts and purposes; and monitoring procedures of services received were adequate.

Specific problems identified included:

- 18 of 34 contracts reviewed were missing specific requirements established under state policy including address of parties, liaison, schedule of performance, revenue, employment status, termination and default;

- five contracts were signed after the beginning of the contract period or after the service was performed;

- no certification of Workers' Compensation insurance coverage existed for any contracts reviewed;

- in two contracts tested, the "contractor's" relationship with the university may be construed as employer/employee;

- no central bidders list exists at the university;

- approximately 60 percent of all transactions recorded under the contracted services expenditure category are considered to be miscoded. However, this does not affect the university's financial statement presentation.

A state task force, organized to act in response to the contracted services audit findings and recommendations included an individual from the university. The task force drafted a management memorandum to eliminate conflicting state policies and provide guidance in the area of contracted services. The memorandum addresses a variety of issues including those problems identified at the university. University personnel indicated that a contracted services policy statement, incorporating the guidelines of the management memorandum, will soon be drafted. Therefore, this section is for disclosure only and we make no recommendation at this time.

Annual Leave for Academic Administrators

Both the state of Montana and the Board of Regents leave policies state the maximum amount of annual leave at the end of the calendar year is not to exceed twice the annual amount earned. The university makes the maximum annual leave determination for academic administrators at the end of the fiscal year rather than the end of the calendar year. This could result in academic administrators carrying excess annual leave over the end of the calendar year or having annual leave taken away at the end of the fiscal year when in fact they are entitled to carry the leave forward to the end of the calendar year. The university should comply with the current policies and, if officials believe there is an error, request the Board of Regents to revise the policies.

RECOMMENDATION #12

WE RECOMMEND THE UNIVERSITY COMPLY WITH ITS POLICIES REGARDING ANNUAL LEAVE BALANCES.

Telephone Usage

During the period April 1 through December 31, 1986, we identified a university employee who made 575 telephone calls to one out-of-state number and 23 calls to another out-of-state number. The employee stated the calls were made to follow the progress of potential athletic recruits in the areas called. Because of the large numbers of calls made, and because the employee making the calls could not provide any documentation demonstrating the calls were for valid state business, we question the validity of these calls.

Calls made on the university telephones should be for legitimate business purposes only. We brought this matter to the attention of university officials who subsequently requested the employee to reimburse the university for some of the calls. The university also implemented controls in the affected department to prevent and/or detect such calls in the future.

RECOMMENDATION #13

WE RECOMMEND THE UNIVERSITY CONTINUE MONITORING TELEPHONE BILLS TO ENSURE CALLS ARE FOR LEGITIMATE STATE BUSINESS.

INTERNAL CONTROL

The management of the university is responsible for establishing and maintaining systems of accounting control, using estimates and judgment to assess the expected benefits and related costs of control procedures. The objectives of these systems are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected.

Our audit identified areas where we believe the university should improve its internal controls. These areas include inventories (see page 7); property, plant, and equipment (see page 15); and expenditures which are discussed below.

Student Time Cards

Individuals should be paid for the number of hours worked, and adequate documentation should exist to verify the individual is properly paid. We noted three instances during the audit period where this did not occur with student payroll. We tested a total of 22 payroll expenditures involving student employees. Student employee payroll expenditures at the university are approximately $2 million per year.

For one item, the work hour total reported on the student's time card was not mathematically correct and the student was paid an incorrect amount. University personnel stated they do not have sufficient time to verify the mathematical accuracy of the time cards, therefore they did not find the mistake.

Some student employees are required to complete two time cards each month, one for the first half and one for the second half of the month. The totals from the first card are carried forward to the second card which then will contain total hours for the month.

We could not find both time cards for one student in our payroll sample. The university's payroll department only had the time card for the second half of the month. The department the student worked for was supposed to have had the first time card but could not find it. Therefore the university does not have complete support for the amount paid to this student.

In the third instance a student worked two jobs for the university. The rates of pay for the two jobs were reversed and the student was underpaid by $2.44. University personnel indicated they had identified the error but did not believe it was cost beneficial to correct it.

RECOMMENDATION #14

WE RECOMMEND THE UNIVERSITY IMPLEMENT FURTHER PROCEDURES TO ENSURE STUDENTS ARE PAID THE PROPER AMOUNT FOR HOURS ACTUALLY WORKED.

Leave Records and Termination Pay

We tested five employee terminations and found three leave balances which were inaccurate and not supported with adequate documentation. The university's procedures with regard to leave records are not adequate to ensure employees receive the proper amount of termination pay. Two employees were underpaid by $20 and $64, respectively. The third employee was overpaid by $838. These errors in termination pay resulted because the university did not update leave balances in a timely manner. In addition, one individual used more sick leave than was available. According to a university official, the university has taken steps to ensure its personnel technicians receive the training necessary to ensure accurate leave records exist.

RECOMMENDATION #15

WE RECOMMEND THE UNIVERSITY CONTINUE TO ENSURE ITS PERSONNEL TECHNICIANS RECEIVE THE TRAINING NECESSARY TO MAINTAIN ACCURATE LEAVE RECORDS.

Compensatory Time Records

The university does not maintain central records of compensatory time earned and used for professional, executive, and administrative employees. These employees are allowed to informally keep track of overtime worked and are able to take time off equivalent to the extra hours worked. Some employees are recording compensatory time on their time cards but should not be according to university policy.

The university's policy states non-exempt hourly classified employees not in a bargaining unit are eligible for compensatory time at time and a half up to a maximum of 240 hours for 160 hours worked. The policy further states exempt professional, executive, and administrative personnel may not accrue or record compensatory time but may, at the discretion of their supervisor, take time off approximately equivalent to extra time worked. Employees in bargaining units are subject to the provisions of the applicable bargaining agreement. State policies governing compensatory time require records of compensatory time earned and used. These policies apply to exempt professionals not hired under contract with the Board of Regents.

There is some confusion as to which employees, under current policies, are entitled to earn compensatory time. The results of our audit indicate employees are not always sure what type of overtime compensation they are entitled to. We noted individuals not meeting the compensatory time criteria were recording the accumulation and use of compensatory time on their time cards. The university should communicate what type of overtime compensation applies to each employee.

Our prior audit recommended the university implement a system to monitor the use of compensatory time. In response, the university redesigned its time cards to allow employees to record the previous balance, compensatory time earned and used, and the ending balance. Automating a compensatory time system would require a significant amount of time and effort. It would involve, according to university officials, redesigning the entire payroll system. Officials have indicated they will enhance the payroll system in the future.

The university should communicate the overtime compensation method to each employee and direct supervisory personnel to review time cards for compliance with overtime compensation laws and policies.

RECOMMENDATION #16

WE RECOMMEND THE UNIVERSITY COMMUNICATE COMPENSATORY TIME POLICIES TO AFFECTED EMPLOYEES.

STUDENT FULL-TIME EQUIVALENTS (FTEs)

Student FTEs are measures of the university enrollment each quarter. The FTE reports, which are submitted to the Commissioner of Higher Education (CHE), include a report of total student FTE and a report of restricted FTEs each quarter. According to the "Montana University System Registrar's Manual for Reporting Enrollment Data" issued by CHE, "restricted enrollment means student credit hours generated in any course or program in which the instructor's salary is funded by sources outside the regular operating budget of the institution." The number of unrestricted FTEs is determined by subtracting restricted FTE from the total FTEs reported for the quarter. The university receives state General Fund support based, in part, on the number of unrestricted FTEs.

We noted three occurrences which affected the FTEs reported to CHE during fiscal years 1985-86 and 1986-87. The following sections discuss our findings.

Conversion of Semester FTE to Quarter FTE

The university's quarterly FTE reports include FTEs generated by the University of Montana School of Law. The School of Law operates on a semester basis, whereas the rest of the university operates on a quarterly basis. The registrar's manual outlines procedures university units should follow to properly report semester FTEs.

The university did not comply with these procedures during fiscal years 1985-86 and 1986-87. The manual states the amount of semester credit hours and FTE reported to CHE for winter quarter is to be the same as that reported for fall quarter. The manual further states the semester credit hours and FTE reported to CHE for spring quarter must be converted to quarter hours and FTE. The manual provides a formula for this conversion.

The university did not properly report winter quarter 1986 and 1987 semester credit hours and FTE, did not convert spring quarter 1986 semester information to a quarter basis, and erroneously converted spring quarter 1987 semester information because the winter quarter 1987 semester amount was incorrectly reported. These errors occurred primarily because the university's FTE reports are computer generated based on registration information as of the third week of classes. Proper reporting in this case requires manual adjustments to the university's third week reports to ensure semester credit hours and FTE are accurately reported. Although these errors did not materially affect the FTE reports, as the largest misstatement was five FTE, the university can not be assured this will always be the case and should implement procedures to ensure proper reporting of semester FTE information.

Restricted FTEs

We identified two errors related to restricted FTEs. The university reports restricted enrollment information to CHE via a report of student credit hours. The student credit hours figure is the product of the number of students and the number of credit hours. The calculation is done for each class individually. The spring quarter 1986 restricted credit hours were understated by 76 because the person responsible for completing this report reported the number of students in one class, rather than the number of student credit hours for the class (152). This error understated restricted FTEs and overstated unrestricted FTEs for spring quarter 1986. The misstatements on this report were not material to total FTE, but the potential exists for a material error to occur. The university should implement review procedures to ensure the restricted student credit hours are accurately calculated.

The second error concerns the calculation of restricted FTEs when the class instructor's salary is funded with both restricted and unrestricted moneys. University personnel improperly calculated restricted FTEs for Air Force Institute of Technology (AFIT) classes. The AFIT classes are held at Malmstrom Air Force Base primarily for Air Force personnel but civilians also take the courses. The federal government and the university share the cost of the applicable salaries.

University personnel calculated the restricted FTEs for AFIT classes by subtracting the number of civilians taking the AFIT classes from the credit hours of AFIT classes. The registrar's manual instructs university personnel to prorate the credit hours when an instructor's salary is paid by both restricted and unrestricted funds. The result of the university's miscalculations was as follows:

	Reported FTE*		Number of
Quarter	Unrestricted	Restricted	Misclassified FTE
Autumn 1985	7956	40	15
Winter 1986	7848	28	14
Spring 1986	7275	31	13
Summer 1986	1366	13	19
Autumn 1986	7807	43	19
Winter 1987	7688	51	16
Spring 1987	7031	45	14

* Restricted FTE are understated; Unrestricted FTE are overstated.

University officials stated the university pays more in support costs than what is received from civilian tuition fees and the federal government. This is their reasoning for calculating the credit hours and FTE as they do. The university should comply with CHE policy, as contained in the registrar's manual, for calculating and reporting restricted FTEs. The university should also consider seeking changes in the policy and procedures if they believe the current policy does not result in an accurate representation of FTE generated by unrestricted funds.

RECOMMENDATION #17

WE RECOMMEND THE UNIVERSITY CALCULATE AND REPORT STUDENT FTES IN ACCORDANCE WITH POLICIES ESTABLISHED BY THE COMMISSIONER OF HIGHER EDUCATION.

ACCOUNTS RECEIVABLE

The university has not established policies, procedures, and controls to account for all receivables. The university has centralized some receivables but several departments still control their own receivables. Departments controlling their own receivables account for approximately $673,000 of the $5,064,908 reported on the university's balance sheet at June 30, 1987. Each

department has developed its own procedures for accounting for receivables. As a result, inconsistencies exist for billings. Some departments do not send bills to outstanding debtors; others bill only once.

University personnel stated their departments do not bill, or bill infrequently, because they rely on the university policy that to register or receive transcripts, a student must pay any outstanding bills. However, not all debtors are students, and not all student debtors continue their education or request transcripts. The controller's office should either establish a centralized accounts receivable system for all receivables or develop billing policies and procedures to be followed by the various departments which service their own receivables. Without these procedures, the university runs an increased risk of lost revenue and a large allowance for bad debts in proportion to outstanding receivables. As discussed on page 3, the university recently began using a new accounting system. A university official indicated this system contains a billing feature which will be considered for future use.

RECOMMENDATION #18

WE RECOMMEND THE UNIVERSITY DEVELOP ACCOUNTS RECEIVABLE BILLING POLICIES AND PROCEDURES FOR DEPARTMENTS CONTROLLING THEIR OWN RECEIVABLES OR CENTRALIZE ALL RECEIVABLES THROUGH THE CONTROLLER'S OFFICE.

AUDITOR'S OPINION LETTER
AND UNIVERSITY FINANCIAL STATEMENTS

SUMMARY OF AUDIT OPINION

The auditor's opinion issued in this report is intended to convey to the reader of the financial statements the degree of reliance which can be placed on the amounts presented.

The opinion expressed on page 41 means the reader of the financial statements may rely on the fairness of the amounts presented when analyzing the university's operations.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Balance Sheet of the University of Montana at June 30, 1987, and related Statements of Changes in Fund Balance and Statements of Current Funds Revenues, Expenditures, and Other Changes for each of the two fiscal years then ended as shown on pages 43 to 54. Our examination was made in accordance with generally accepted auditing standards, and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to in the first paragraph present fairly the financial position of such funds of the University of Montana at June 30, 1987, and results of its operations and the changes in fund balances of such funds for the two fiscal years then ended in conformity with generally accepted accounting principles applied on a consistent basis except for the change, with which we concur, in the method of reporting the Associated Students of the University of Montana (ASUM) activity, as described in note 8 to the financial statements.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedules of Student Full-Time Equivalents are presented as supplemental information and

are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our examination of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

April 8, 1988

UNIVERSITY OF MONTANA
BALANCE SHEET
JUNE 30, 1987
(With comparative totals for 1986)

	Current Funds						Plant Funds					Memorandum Totals Only	
	Unrestricted												
	General Operating	Designated	Auxiliary Enterprises	Restricted	Student Loan Funds	Endowment Funds	Unexpended	Renewal & Replacement	Retirement of Indebtedness	Investment In Plant	Agency Funds	1987	1986
ASSETS													
Cash	$ 62,791	$ 922,787	$ 1,759,430	$ 1,020,464	$ 44,990	$ 1,263	$ (24,003)	$ 4,673,514	$ (4,212,062)	$ -	$ 25,585	$ 4,274,759	$ 6,155,808
Pooled Investments (Note 3,8)	-	110,000	309,615	957,400	728,700	757,700	562,800	1,018,700	539,270	-	51,400	5,035,585	4,183,452
Other Investments (Note 3)	-	-	-	-	-	381,781	3,452,651	-	425,560	-	183,363	4,443,355	6,357,842
Pooled Investments Receivable (Note 3,8)	-	-	-	-	-	-	-	-	36,030	-	-	36,030	-
Deposits with trustee	-	-	-	-	-	-	-	-	679,685	-	-	679,685	981,815
Accounts receivable	2,782,071	212,618	452,768	1,532,371	18,013	-	135,960	7,414	177,207	-	54,171	5,372,593	2,698,024
Less allowance for doubtful accounts	(93,477)	(35,877)	(158,814)	-	-	-	(3,933)	-	(5,567)	-	(10,017)	(307,685)	(216,118)
Inventories and supplies	6,284	1,080,214	531,392	-	-	-	-	-	-	-	-	1,617,890	1,817,487
Prepaid expenses and deferred charges	88,681	84,645	7,053	28,269	-	-	-	824	-	-	290	209,762	191,124
Due from other fund groups	83,840	574,141	1,777,591	737,308	54,283	1	3,316	885,252	509,064	-	(306)	4,624,490	2,107,116
Construction advances	-	-	-	-	-	-	19,947	(4,100)	-	-	-	15,847	50,600
Interentity Loans Receivable	1,685,000	34,500	6,000	-	-	-	-	-	3,700,000	-	-	5,425,500	748,460
Loans receivable	-	-	-	-	4,028,409	-	-	-	-	-	-	4,028,409	4,179,831
Less allowance for doubtful loans	-	-	-	-	(207,782)	-	-	-	-	-	-	(207,782)	(155,825)
Land and land improvements	-	-	-	-	-	-	-	-	-	4,709,172	-	4,709,172	4,292,591
Buildings	-	-	-	-	-	-	-	-	-	76,692,357	-	76,692,357	70,558,382
Equipment	-	-	-	-	-	-	-	-	-	20,769,031	-	20,769,031	19,036,446
Library and reference books	-	-	-	-	-	-	-	-	-	18,760,370	-	18,760,370	18,080,470
Museum and art collections	-	-	-	-	-	-	-	-	-	4,367,627	-	4,367,627	4,367,427
Construction in progress	-	-	-	-	-	-	1,370,085	99,638	-	562,641	-	2,032,364	4,058,531
Intangible assets (Note 10)	-	-	-	-	-	-	-	-	-	100,209	-	100,209	65,128
Total Assets	$ 4,615,190	$ 2,983,028	$ 4,685,035	$ 4,275,812	$ 4,666,613	$ 1,140,745	$ 5,516,823	$ 6,681,242	$ 1,849,187	$125,961,407	$ 304,486	$162,679,568	$149,558,591
LIABILITIES AND FUND BALANCE													
Accounts payable	$ 3,276,235	$ 501,639	$ 578,787	$ 536,129	$ 304	$ -	$ 131,825	42,820	$ (36,686)	$ -	$ 46,197	$ 5,077,250	$ 5,167,887
Accrued liabilities	181,575	67,009	26,063	23,936	-	-	-	-	-	-	-	298,583	228,259
Accrued interest payable	13,300	-	-	-	-	-	-	-	790,246	-	-	803,546	369,516
Pooled Investments Payable (Note 8)	-	-	-	-	-	-	-	-	36,030	-	-	36,030	-
Students' deposits	-	-	210,482	-	-	-	-	-	-	-	-	210,482	153,905
Due to other fund groups	566,300	209,107	1,882,932	765,433	1,897	-	90,485	579,743	525,023	-	3,570	4,624,490	2,107,117
Deferred revenue	317,333	54,068	66,105	-	-	-	16,983	-	19,468	-	-	473,957	497,978
Deposits held in custody for others	-	12,059	-	-	-	-	-	-	-	-	226,831	238,890	397,527
Current bonds/notes payable (Note 4)	-	-	-	-	-	-	-	-	-	1,107,968	-	1,107,968	1,019,837
Interentity Loans Payable	2,000	190,000	6,000	1,500,000	-	-	-	3,700,000	-	-	27,500	5,425,500	1,142,477
Long-term notes payable	-	-	-	-	-	-	-	-	-	102,410	-	102,410	50,040
Long-term leases	-	-	-	-	-	-	-	-	-	67,050	-	67,050	52,284
Revenue bond payable (Note 4)	-	-	-	-	-	-	3,795,089	400,564	-	8,445,460	-	12,641,113	13,748,082
Sick and annual leave liability (Note 7)	3,040,818	283,838	415,999	-	-	-	-	-	-	-	388	3,741,043	3,464,555
Fund balances													
U.S. Government grants refundable	-	-	-	-	3,940,247	-	-	-	-	-	-	3,940,247	3,709,357
Endowment	-	-	-	-	-	968,431	-	-	-	-	-	968,431	962,875
Funds functioning as endowments	-	-	-	-	-	172,314	-	-	-	-	-	172,314	172,313
Allocated for encumbrances (Note 2)	147,500	-	-	-	-	-	-	-	-	-	-	147,500	129,171
Unallocated	(2,929,871)	1,665,308	1,498,667	-	-	-	1,482,441	1,958,115	515,106	-	-	4,189,766	5,877,593
Restricted	-	-	-	1,450,314	666,516	-	-	-	-	-	-	2,116,830	1,995,224
Unrestricted	-	-	-	-	57,649	-	-	-	-	-	-	57,649	61,113
Net investment in plant (Note 6)	-	-	-	-	-	-	-	-	-	116,238,519	-	116,238,519	108,251,481
Total Liabilitites & Fund Balances	$ 4,615,190	$ 2,983,028	$ 4,685,035	$ 4,275,812	$ 4,666,613	$ 1,140,745	$ 5,516,823	$ 6,681,242	$ 1,849,187	$125,961,407	$ 304,486	$162,679,568	$149,558,591

UNIVERSITY OF MONTANA
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
YEAR ENDED JUNE 30, 1987
With Comparative Totals for 1986

	Unrestricted					
	General Operating	Designated	Auxiliary Enterprises	Restricted	Total 1987	Total 1986
REVENUES:						
Tuition and Fees	$ 9,113,771	$ 1,112,413	$ 1,910,445	$ -	$12,136,629	$11,255,521
State Appropriation	26,184,623	-	-	-	26,184,623	27,685,886
Federal Grants and Contracts	275,050	-	-	7,285,343	7,560,393	7,294,135
State and Local Grants/Contracts	59,234	-	-	1,153,321	1,212,555	1,252,555
Private Gifts, Grants and Contracts	65,688	-	-	2,155,049	2,220,737	2,040,541
Investment Income	-	-	57,451	113,849	171,300	261,047
Sales and Service	-	1,231,949	10,374,012	-	11,605,961	11,435,885
Other Sources	141,882	1,509,700	21,459	-	1,673,041	448,516
TOTAL CURRENT REVENUES	$35,840,248	$ 3,854,062	$12,363,367	$10,707,562	$62,765,239	$61,674,086
EXPENDITURES AND MANDATORY TRANSFERS:						
Educational and General:						
Instruction	$18,438,690	$ 627,070	$ -	$ 2,388,326	$21,454,086	$21,671,688
Research	1,268,915	42,280	-	2,735,929	4,047,124	4,124,182
Public Service	131,415	181,712	-	-	313,127	432,366
Academic Support	4,293,469	-	-	753,721	5,047,190	4,879,822
Student Services (Note 9)	2,997,735	975,952	-	625,981	4,599,668	4,167,504
Institutional Support	3,191,296	1,702,184	-	7,176	4,900,656	4,786,440
Operations and Maintenance of Plant	4,667,241	-	-	-	4,667,241	4,951,952
Scholarships and Fellowships	978,962	-	-	4,196,429	5,175,391	5,153,115
Educational and General Expenditures	$35,967,723	$ 3,529,198	$ -	$10,707,562	$50,204,483	$50,167,069
Mandatory Transfers	31,597	50,000	-	-	81,597	69,310
Total Educational and General	$35,999,320	$ 3,579,198	$ -	$10,707,562	$50,286,080	$50,236,379
Auxiliary Enterprise Expenditures	$ -	$ -	$11,015,643	$ -	$11,015,643	$ 9,951,007
Mandatory Transfers for Retirement of Indebtedness	-	-	4,031,638	-	4,031,638	1,286,787
Total Auxiliary Enterprises	$ -	$ -	$15,047,281	$ -	$15,047,281	$11,237,794
TOTAL EXPENDITURES AND MANDATORY TRANSFERS	$35,999,320	$ 3,579,198	$15,047,281	$10,707,562	$65,333,361	$61,474,173
LOSS ON DEBT EXTINGUISHMENT (Note 11)	$ -	$ -	$ 442,351	$ -	$ 442,351	$ -
OTHER TRANSFERS AND ADDITIONS(DEDUCTIONS):						
Excess of Restricted Receipts over Restricted Expenditures	$ -	$ -	$ -	$ 113,460	$ 113,460	$ 161,641
Transfers to Plant	(25,327)	(17,453)	(707,000)	-	(749,780)	(128,897)
Transfers within Current Funds	9,825	4,800	(5,800)	(8,825)	-	5,800
Transfers to Endowment Funds	-	-	-	(1,999)	(1,999)	(2,500)
Transfers to Loan Funds	-	-	-	-	-	(706)
Transfers Plant to Auxiliaries	-	-	4,025,139	-	4,025,139	25,000
TOTAL TRANSFERS AND ADDITIONS (DEDUCTIONS)	$ (15,502)	$ (12,653)	$ 3,312,339	$ 102,636	$ 3,386,820	$ 60,338
NET INCREASE(DECREASE) IN FUND BALANCE	$ (174,574)	$ 262,211	$ 186,074	$ 102,636	$ 376,347	$ 260,251

UNIVERSITY OF MONTANA
STATEMENT OF CURRENT FUNDS REVENUE, EXPENDITURES AND OTHER CHANGES
YEAR ENDED JUNE 30, 1986
With Comparative Totals for 1985

	Unrestricted					
	General Operating	Designated	Auxiliary Enterprises	Restricted	Total 1986	Total 1985
REVENUE:						
Tuition and Fees	$ 8,264,145	$ 1,192,165	$ 1,799,211	$ -	$ 11,255,521	$ 10,745,833
State Appropriation	27,685,886	-	-	-	27,685,886	27,422,460
Federal Grants & Contracts	268,000	-	-	7,026,135	7,294,135	6,461,338
State & Local Grants/Contracts	68,640	-	-	1,183,915	1,252,555	1,438,668
Private Gifts, Grants & Contracts	63,360	-	-	1,977,181	2,040,541	1,504,758
Land Grant Income (Note 5)					-	234,724
Investment Income	-	-	125,676	135,371	261,047	321,413
Other Sources	109,048	324,304	15,164	-	448,516	588,957
Sales and Service of	-	-	-	-	-	-
Designated/Aux Services (Note 8)	-	1,902,221	9,533,664	-	11,435,885	12,449,027
TOTAL REVENUE	$ 36,459,079	$ 3,418,690	$ 11,473,715	$ 10,322,602	$ 61,674,086	$ 61,167,178
EXPENDITURES AND MANDATORY TRANSFERS:						
Education and General:						
Instruction	$ 19,057,193	$ 585,151	$ -	$ 2,029,344	$ 21,671,688	$ 21,525,682
Research	1,341,194	86,430	-	2,696,558	4,124,182	3,657,710
Public Service	209,985	222,381	-	-	432,366	414,795
Academic Support	4,215,091	-	-	664,731	4,879,822	4,038,954
Student Services (Note 9)	2,944,037	552,791	-	670,676	4,167,504	4,196,431
Institutional Support	3,044,949	1,735,575	-	5,916	4,786,440	5,558,398
Operations & Main of Plant	4,951,952	-	-	-	4,951,952	4,736,712
Scholarships & Fellowships	897,738	-	-	4,255,377	5,153,115	4,402,693
Uncompensated Leave Expense (Note 8)	-	-	-	-	-	216,306
Education/General Expenditures	$ 36,662,139	$ 3,182,328	$ -	$ 10,322,602	$ 50,167,069	$ 48,747,681
Mandatory Transfers	19,310	50,000	-	-	69,310	26,320
Total Education/General	$ 36,681,449	$ 3,232,328	$ -	$ 10,322,602	$ 50,236,379	$ 48,774,001
Auxiliary Enterprise Expenditures	$ -	$ -	$ 9,951,007	$ -	$ 9,951,007	$ 12,172,938
Mandatory Transfers for Retirement of Indebtedness	-	-	1,286,787	-	1,286,787	3,440,142
Total Auxiliary Enterprises	$ -	$ -	$ 11,237,794	$ -	$ 11,237,794	$ 15,613,080
TOTAL EXPENDITURES AND MANDATORY TRANSFERS	$ 36,681,449	$ 3,232,328	$ 11,237,794	$ 10,322,602	$ 61,474,173	$ 64,387,081
OTHER TRANSFERS AND ADDITIONS(DEDUCTIONS):						
Excess of Restricted Receipts over Restricted Expenditures	$ -	$ -	$ -	$ 161,641	$ 161,641	$ 91,519
Transfers from Retirement of Indebtedness	-	-	-	-	-	-
Transfers to Plant	(128,897)	-	-	-	(128,897)	(58,678)
Transfers within Current Funds	6,815	5,800	-	(6,815)	5,800	-
Transfers to Endowment Funds	-	-	-	(2,500)	(2,500)	(12,902)
Transfers to Loan Funds	-	-	-	(706)	(706)	-
Transfers Plant to Auxiliaries	-	-	25,000	-	25,000	-
TOTAL TRANSFERS AND ADDITIONS (DEDUCTIONS)	$ (122,082)	$ 5,800	$ 25,000	$ 151,620	$ 60,338	$ 19,939
NET INCREASE(DECREASE) IN FUND BALANCE	$ (344,452)	$ 192,162	$ 260,921	$ 151,620	$ 260,251	$ (3,199,964)

UNIVERSITY OF MONTANA
STATEMENT OF CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 1987

	Current Funds						Plant Funds			
	Unrestricted									
	General Operating	Designated	Auxiliary Enterprises	Restricted	Student Loans	Endowment Funds	Unexpended	Renewal & Replacement	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS:										
Unrestricted Current Fund (Note 8)	$35,840,248	$ 3,854,062	$10,374,012	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Gifts, Grants and Contracts	-	-	-	10,676,728	-	-	-	-	-	372,362
Federal Contributions	-	-	-	-	247,130	-	-	-	-	-
Private Contributions	-	-	-	-	7,290	3,558	-	-	-	19,138
Land Grant Income (Note 5)	-	-	-	-	-	-	203,023	-	-	-
Interest and Recovery on Loans	-	-	-	-	112,119	-	-	-	-	-
Student Fees	-	-	1,910,445	-	-	-	361,416	-	561,201	-
Investment Income	-	-	57,451	144,294	53,472	-	324,326	43,488	249,401	-
Retirement of Indebtedness	-	-	-	-	-	-	-	-	-	7,029,603
Expended for Plant Facilities	-	-	-	-	-	-	-	-	-	9,303,230
Proceeds from Bond Sale	-	-	-	-	-	-	-	4,077,535	87,465	-
Other	-	-	21,459	-	-	-	-	148,512	97,362	14,560
TOTAL REVENUES AND OTHER ADDITIONS	$35,840,248	$ 3,854,062	$12,363,367	$10,821,022	$ 420,011	$ 3,558	$ 888,765	$ 4,269,535	$ 995,429	$ 16,738,893
EXPENDITURES AND OTHER DEDUCTIONS:										
Expenditures (Note 7,8)	$35,967,723	$ 3,529,198	$11,015,643	$10,707,562	$ -	$ -	$ 171,089	$ 693,018	$ 20,498	$ -
Loan Cancellations	-	-	-	-	155,527	-	-	-	-	-
Administrative Expenditures	-	-	-	-	1,149	-	-	-	-	-
Provision of Doubtful Loans	-	-	-	-	51,957	-	-	-	-	-
Expended for Plant Facilities	-	-	-	-	-	-	1,852,645	393,207	14,596	133,687
Retirement of Indebtedness	-	-	-	-	-	-	-	-	5,189,310	8,657,100
Interest on Indebtedness	-	-	-	-	-	-	-	-	1,161,356	-
Bond Issuance Costs	-	-	-	-	-	-	-	-	87,465	-
Miscellaneous Deductions	-	-	-	-	-	-	-	-	26,646	-
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	$35,967,723	$ 3,529,198	$11,015,643	$10,707,562	$ 208,633	$ -	$ 2,023,734	$ 1,086,225	$ 6,499,871	$ 8,790,787
GAIN(LOSS) ON DEBT EXTINGUISHMENT (Note 4,11)	$ -	$ -	$ (442,351)	$ -	$ -	$ -	$ -	$ -	$ 822,196	$ -
TRANSFERS AMONG FUNDS/ADDITIONS(DEDUCTIONS)										
Mandatory:										
Loan Fund Matching	$ (31,597)	$ -	$ -	$ -	$ 31,597	$ -	$ -	$ -	$ -	$ -
Transfers Within Plant Fund	-	-	-	-	-	-	(365,008)	365,008	-	-
Retirement of Indebtedness	-	(50,000)	(4,031,638)	-	-	-	(573,618)	-	4,655,256	-
Other Transfers	(15,502)	(12,653)	3,312,339	(10,824)	-	1,999	306,683	(3,321,938)	(260,104)	-
Move Equity to Net Investment in Plant	-	-	-	-	-	-	(63,180)	-	-	63,180
TOTAL TRANSFERS/ADDITIONS(DEDUCTIONS)	$ (47,099)	$ (62,653)	$ (719,299)	$ (10,824)	$ 31,597	$ 1,999	$ (695,123)	$ (2,956,930)	$ 4,395,152	$ 63,180
Net Increase(Decrease) for the Year	$ (174,574)	$ 262,211	$ 186,074	$ 102,636	$ 242,975	$ 5,557	$(1,830,092)	$ 226,380	$ (287,094)	$ 8,011,286
Beginning of Year as Previously Reported	(2,661,791)	1,286,973	1,297,725	1,344,257	4,421,437	1,135,188	3,312,533	1,731,216	1,040,108	108,251,481
Prior Year Adjustments:										
Decrease(Increase) Expenditures	54,014	(13,040)	14,326	(21,101)	-	-	-	324	(237,908)	-
Increase(Decrease) Revenue	(20)	289	542	24,522	-	-	-	195	-	-
Move ASUM (Agency to Designated)	-	128,875	-	-	-	-	-	-	-	-
Adjustment in Investment in Plant	-	-	-	-	-	-	-	-	-	(24,248)
Total Prior Year Adjustments	$ 53,994	$ 116,124	$ 14,868	$ 3,421	$ -	$ -	$ -	$ 519	$ (237,908)	$ (24,248)
Fund Balance at Beginning of Year as Adjusted	$(2,607,797)	$ 1,403,097	$ 1,312,593	$ 1,347,678	$ 4,421,437	$ 1,135,188	$ 3,312,533	$ 1,731,735	$ 802,200	$108,227,233
Fund Balance(Deficit) at end of Year	$(2,782,371)	$ 1,665,308	$ 1,498,667	$ 1,450,314	$ 4,664,412	$ 1,140,745	$ 1,482,441	$ 1,958,115	$ 515,106	$116,238,519

UNIVERSITY OF MONTANA
STATEMENT OF CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 1986

	Current Funds						Plant Funds			
	Unrestricted									
	General Operating	Designated	Auxiliary Enterprises	Restricted	Student Loan Funds	Endowment Funds	Unexpended	Renewals Replacements	Retirement of Indebtedness	Investment In Plant
REVENUE AND OTHER ADDITIONS:										
Unrestricted Current Fund	$ 36,459,079	$ 3,418,690	$ 9,533,664	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Gifts, Grants & Contracts	-	-	-	10,320,724	-	-	-	-	-	363,237
Federal Contributions	-	-	-	-	173,790	-	-	-	-	-
Private Contributions	-	-	-	-	17,775	6,809	3,809	-	-	1,179,302
Land Grant Income (Note 5)	-	-	-	-	-	-	284,831	-	-	-
Interest and Recovery on Loans	-	-	-	-	68,807	-	-	(24,678)	24,678	-
Student Fees	-	-	1,799,211	-	-	-	294,535	-	584,387	-
Investment Income	-	-	125,676	163,521	43,080	-	431,260	138,117	190,019	-
Retirement of Indebtedness	-	-	-	-	-	-	-	-	(24,050)	14,484,059
Expended for Plant Facilities	-	-	-	-	-	-	-	-	-	14,517,449
Other	-	-	15,164	-	-	-	-	249,855	99,427	67,967
Proceeds from Bond Sale								(114,231)	6,811,388	
TOTAL REVENUE AND OTHER AOOITIONS	$ 36,459,079	$ 3,418,690	$ 11,473,715	$ 10,484,245	$ 303,452	$ 6,809	$ 1,014,435	$ 249,063	$ 7,685,849	$ 30,612,014
EXPENDITURES AND OTHER DEDUCTIONS:										
Expenditures	$ 36,662,139	$ 3,182,328	$ 9,951,007	$ 10,322,604	$ -	$ -	$ 94,307	$ 332,966	$ 64,571	$ -
Loan Cancellations	-	-	-	-	16,544	-	-	-	-	-
Administrative Expenditures	-	-	-	-	9,584	-	-	-	-	-
Provision of Ooubtful Loans	-	-	-	-	6,830	-	-	-	-	-
Expended for Plant Facilities	-	-	-	-	-	-	1,725,360	884,192	20,099	12,147,037
Retirement of Indebtedness	-	-	-	-	-	-	-	-	8,601,332	12,471,619
Interest on Indebtedness	-	-	-	-	-	-	-	-	843,261	-
Loss on Refinancing (Note 4)	-	-	-	-	-	-	-	-	366,041	-
Bond Issuance Costs	-	-	-	-	-	-	-	-	634,373	-
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	$ 36,662,139	$ 3,182,328	$ 9,951,007	$ 10,322,604	$ 32,958	$ -	$ 1,819,667	$ 1,217,158	$ 10,529,677	$ 24,618,656
TRANSFERS AMONG FUNOS/ADOITIONS(OEDUCTIONS)										
Mandatory:										
Loan Fund Matching	$ (19,310)	$ -	$ -	$ -	$ 19,310	$ -	$ -	$ -	$ -	$ -
Transfers Within Plant Fund	-	-	-	-	-	-	(1,365,057)	-	-	-
Retirement of Indebtedness	-	(50,000)	(1,280,987)	-	-	-	(124,508)	(438,362)	3,258,914	-
Other Transfers	(122,082)	5,800	19,200	(10,021)	(3,294)	6,500	(542,716)	-886,375	(239,765)	-
Other Deductions:										
Move Equity to Net Investment in Plant	-	-	-	-	-	-	5,045,960	370,218	-	(5,416,178)
TOTAL TRANSFERS/AOOITIONS(DEOUCTIONS)	$ (141,392)	$ (44,200)	$ (1,261,787)	$ (10,021)	$ 16,016	$ 6,500	$ 3,013,679	$ 818,231	$ 3,019,149	$ (5,416,178)
Net Increase(Oecrease) for the Year	$ (344,452)	$ 192,162	$ 260,921	$ 151,620	$ 286,510	$ 13,309	$ 2,208,447	$ (149,864)	$ 175,321	$ 577,180
Beginning of Year as Previously Reported	(2,276,381)	1,098,768	1,036,930	1,193,418	4,134,927	1,121,879	358,200	644,441	2,021,724	108,991,761
Prior Year Adjustments:										
Decrease(Increase) Expenditures	(45,573)	(16,061)	(2,539)	(125,422)	-	-	(139)	126,385	(550,005)	-
Increase(Decrease) Revenue	6,096	12,104	2,413	124,641	-	-	30,903	-	503,321	-
Adjustment to WIP Invest in Plant	-	-	-	-	-	-	715,122	-	-	-
Move Aux R&R (RI to R&R)	-	-	-	-	-	-	-	1,110,254	(1,110,253)	-
Adjustment in Investment in Plant	(1,481)	-	-	-	-	-	-	-	-	(1,317,460)
Total Prior Year Adjustments	$ (40,958)	$ (3,957)	$ (126)	$ (781)	$ -	$ -	$ 745,886	$ 1,236,639	$ (1,156,937)	$ (1,317,460)
Fund Balance at Beginning of Year As Adjusted	$ (2,317,339)	$ 1,094,811	$ 1,036,804	$ 1,192,637	$ 4,134,927	$ 1,121,879	$ 1,104,086	$ 1,881,080	$ 864,787	$ 107,674,301
Fund Balance(Deficit) at end of year	(2,661,791)	1,286,973	1,297,725	1,344,257	4,421,437	1,135,188	3,312,533	1,731,216	1,040,108	108,251,481

UNIVERSITY OF MONTANA

NOTES TO FINANCIAL STATEMENTS

June 30, 1987

1. Summary of Significant Accounting Policies.

The University of Montana, located in Missoula, Montana, is one of six units of the Montana University System. The University functions as a constitutionally autonomous State agency, governed by the Board of Regents of Higher Education. The official accounting records are maintained on the Statewide Budget and Accounting System (SBAS).

The University is identified on SBAS as two separate State agencies. The Montana Forest Conservation Experiment Station, a separate agency for appropriation purposes, functions as an integral part of the University. Both agencies are considered as a single entity for these financial reports.

Financial Statements:

The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities.

The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period.

Fund Accounting:

The accounts of the University are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed upon their use.

Separate accounts are maintained for each fund; however, accounts with common characteristics are combined into fund groups and reflected as such in the accompanying financial statements.

The common characteristics of the funds contained in the various fund groups are as follows:

Current Funds:

The current funds group includes economic resources expendable in performing the primary objectives of the University, i.e., Instruction, Research and Public Service. The current funds group has two basic distinct subgroups: unrestricted funds which have no expenditure restrictions, and restricted funds which have expenditure restrictions. Unrestricted current funds are comprised of the following:

General Operating - utilized for general operations in performing the primary objectives of the University.

Designated - utilized for educational-related service activities which are self-supporting.

Auxiliary Enterprises - utilized in providing essential on-campus services primarily to students, faculty and staff.

Restricted current funds are available for financing current operations, but limited by external donors and funding agencies to specific purposes, programs, departments or schools.

Student Loan Funds:

The resources from this group of funds are available to students to aid in financing their education. Funds for the loans are provided by federal, private and University sources with the majority of the funds being provided by the federal government.

Endowment Funds:

Endowment funds are funds with specific donor or other outside agency restrictions prohibiting the expenditure of the principal. Generally, the principal is to be maintained in perpetuity and invested for the purpose of producing income. The income may or may not be restricted as to use, at the donor's instruction.

Funds Functioning as Endowments:

These funds have been institutionally endowed, prohibiting the expenditure of principal, with the earnings generated on the invested principal being utilized in accordance with the Institution/specifications.

Plant Funds:

Plant funds are separated into four distinct self-balancing subgroup accounts:

Unexpended Plant - utilized for long-term institutional assets.

Renewal and Replacement - utilized for long-term institutional asset maintenance.

Retirement of Indebtedness - utilized for debt servicing and retirement of indebtedness.

Investment in Plant - denotes the cost of long-term institutional assets and related liabilities and equity.

Agency Funds:

Agency funds account for funds held in a fiduciary or custodian capacity for individuals and organizations. These accounts consist of assets and liabilities and do not have a fund balance common to all other fund groups.

Inventories:

Inventories which consist mainly of food and operating supplies are valued at cost (first in, first out method).

Investments:

Investments are carried at cost (or, in the case of gifts, fair market value at date of receipt) which approximate market value at June 30, 1987.

Plant and Equipment:

Equipment acquired with restricted grants and contracts are recorded as an addition to investment in plant at the time of purchase. On certain grants and contracts, title to equipment purchased is vested with the grantor or contractor until completion of the project, at which time the equipment may revert to the University.

Unearned Tuition and Fees:

Summer School tuition and fee revenues and related expenses are deferred at June 30 and recorded as revenue and expense in the succeeding fiscal year.

Retirement Plans:

Full-time employees of the University of Montana are all members of the Montana Public Employee's Retirement System or Montana Teacher's Retirement System plans, administered by the Department of Administration. At June 30, 1986, these plans were determined to be actuarially sound as reported by the system actuary. The University's contributions to these plans totaled $2,068,186.67 and $2,077,459.61 for the two fiscal years ended June 30, 1986 and June 30, 1987.

Commitments and Contingencies:

At present there are several legal cases in conciliation, negotiation and pending and/or potential litigation which may result in uninsured liability of a magnitude which will most probably not exceed $100,000.

Capital and Operating Leases:

The University of Montana is obligated under equipment capital leases expiring in various years through 1989. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are not depreciated.

Equipment lease purchase contracts are subject to the continued receipt of funds from grants or the Montana legislature.
Property held under capital leases includes:

	Fiscal Year Ended	
	1987	1986
Data Processing Equipment	-	29,940
Copiers	101,584	82,242
Vehicles	11,038	11,038
	$112,622	$123,220

Minimum future lease payments under capital leases as of June 30, 1987 for each of the next five years are:

Fiscal Year Ended	Amount
1988	35,051
1989	25,355
1990	15,909
1991	-
1992	-
Total minimum payments	76,315
Less: Interest	9,266
Present Value of Net Minimum Lease Payments	$67,049

Interest is stated in the contracts or based on the lessor's implicit rate of return. The University does not sublease its equipment under capital lease agreements.

Total minimum lease payments do not include contingent usage charges for leased copiers. These contingent charges were $8,794 in Fiscal Year 1987 and $6,416 in Fiscal Year 1986.

The University leases a single vehicle under a noncancelable operating lease. Minimum future rental payments under this lease for the next five years are:

Fiscal Year Ended	Amount
1988	$3,707
1989	1,862
1990	-
Total Operating Lease Payments	$5,569

2. Allocated for Encumbrances

The Statewide Budget and Accounting System permits reporting expenditures for items on order at June 30, whether or not received.

The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and that liabilities include only the unpaid amounts associated with such transactions.

The University general operating funds had encumbered $129,171 and $147,500 for items not received at June 30, 1986 and June 30 1987 respectively. They are not included in expenditures in the accompanying financial statements.

3. Investments

Investments by fund at June 30, 1987 are as follows:

Fund	Montana Short Term Investment Pool (STIP)	Money Market Held By Trustee	U.S. Treasury Notes/Bills Held By Trustee	Stocks and Bonds	Montana Common Stock	Savings and Loan	Total
Designated	$ 110,000	$ -	$ -	$ -	$ -	$ -	$ 110,000
Auxiliary	309,615	-	-	-	-	-	309,615
Restricted	957,400	-	-	-	-	-	957,400
Student Loans	728,700	-	-	-	-	-	728,700
Endowment	585,400	-	-	85,100	284,181	12,500	967,181
Quasi Endow.	172,300	-	-	-	-	-	172,300
Plant	2,120,770	2,222,990	1,507,434	147,787	-	-	5,998,981
Agency	51,400	55,400	-	127,963	-	-	234,763
	$5,035,585	$2,278,390	$1,507,434	$360,850	$284,181	$12,500	$ 9,478,940

4. Revenue Bonds Payable

A) On September 13 and November 19, 1985, the State of Montana Board of Regents of Higher Education authorized the issuance of Series 1985 Refunding Special Projects and Athletic Facility Revenue Bonds. The Bond proceeds from the 1985 Series A together with other funds available to the University and the State of Montana Board of Regents of Higher Education were used to refund the Auxiliary Enterprise Improvement and Refunding Series 1984 and the Series A 1984 Student Building Fee Resolution. Bond proceeds from the Series A issue also provided funds to retire debt on University rental properties and construct and improve University parking facilities.

Net bond proceeds from the 1985 Series B issue were used to participate in the cost of construction of University of Montana athletic facilities.

The Bonds are payable from net auxiliary revenues, Student Building Fees, net parking and rental property revenues, and a special surcharge added to all Men's Football and Basketball athletic event tickets.

B) On June 4,1987 The Board of Regents of Higher Education for the State of Montana authorized the issuance of $4,165,000 of Special Purpose Facilities Renovation and Improvement Revenue Bonds, Series A 1987. The purpose of the issue was to provide funds to finance construction, acquisition, improvement, repair, replacement, renovation, furnishing and equipping of certain facilities at and for the University of Montana, and to pay the costs of issuance of the Series A 1987 bonds.

Under an Indenture of Trust, between the Board of Regents of Higher Education and the First Trust Co. of Billings, Montana, $3,342,804 of United States Government noncallable direct obligations and associated earnings available to the University were redirected to refund the Special Purpose Facilities Renovation and Improvement Revenue Bonds, Series A 1987. The issue does not appear as a liability on these financial statements.

The redirection of the $3,342,804 in high-yield securities to refund the $4,165,000 issue provided a $822,196 gain on the transaction and is reflected in these financial statements.

C) At June 30, 1987, the principal balance of the 1986 refunded bonds and previously refunded bonds still outstanding was $18,555,000 which will be paid by investments and cash held in irrevocable trusts. The refunded bonds are considered to be extinguished and do not appear as a liability in the accompanying Balance Sheet.

D) On September 4, 1985, the State of Montana Board of Regents of Higher Education authorized the issuance of Series 1985 Special Purpose Revenue Bonds. The Bonds are an obligation of the

Board of Regents of Higher Education. The purpose of the issue was to provide funding to various units of the Montana University System for the acquisition and installation of computer hardware, computer software and various other types of equipment.

The issue consisted of an A, B, and C Series. The B Series was issued to provide funding to the University of Montana. The University of Montana has entered into a loan agreement with the Board of Regents of Higher Education to repay their portion of the debt associated with the B Series. The loan is payable through the year 1992 from the gross pledged revenues of the University's computer fees, computer user fees and Land Grant income.

Revenue Bonds payable at June 30, 1987, with annual principal payments, are as follows:

1985 Refunding Special Projects
Athletic Facilities Revenue Bonds
and CHE Special Purpose Revenue Bonds

	CHE Series B	1985 Series A	1985 Series B	Total Annual Payments
1987	$ 381,968	$ 320,000	$ 40,000	$ 741,968
1988	408,242	685,000	70,000	1,163,242
1989	438,556	745,000	85,000	1,268,556
1990	472,914	820,000	115,000	1,407,914
1991-2007	1,612,758	6,865,085	688,559	9,166,402
	$3,314,438	$ 9,435,085	$ 998,559	$13,748,082

E) Subsequent Events: On July 24, 1987, the Board of Regents of Higher Education for the State of Montana authorized the issuance of the University of Montana Facilities Improvement and Refunding Revenue Bonds Series A 1987 in the amount of $10,560,000, Stadium Improvement Revenue Bonds Series B 1987 in the amount of $130,000, and Special Purpose Facilities Refunding Revenue Bonds Series C 1987 in the amount of $3,945,000.

The Series A and C 1987 issues provided funds to supplement the refunding of the Series 1985 A Special Purpose Revenue Bonds issue and provided funds to renovate existing University facilities.

The Series B 1987 issue provided additional funds for stadium improvements.

While this refunding resulted in a current period loss of appoximately $378,000, that loss was more than offset by the long term economic benefits over the life of the issue resulting from the lower bond interest rates.

5. Land Grants

In the year 1881 the University of Montana became the beneficiary of a 46,709 acre land grant. Under provisions of the grant, proceeds from the sale of land and land assets must be reinvested and constitute, along with the balance of unsold land, a perpetual trust fund.

The grant is administered as a trust by the State Land Board which holds title and has the authority to direct, control, lease, exchange and sell these lands.

The University of Montana as a beneficiary does not have title to the assets resulting from the grant, only a right to the earnings generated. The earnings of the trust, which totaled $284,830.60 and $203,022.77 in fiscal years 1986 and 1987 respectively, are reported as plant fund revenue.

6. Depreciation

No provision has been made for depreciation of Plant facilities.

7. Sick and Annual Leave Liability

Eligible University employees earn 8 hours sick and 10 hours annual leave for each month worked. The accrual rate increases with longevity. Eligible employees may accumulate annual leave up to twice their annual accrual. Sick leave may accumulate without limitation.

Twenty-five percent of accumulated sick leave earned after July 1, 1971 and one hundred percent of annual leave vests to each employee as earned and, if not used during employment, is paid upon termination.

Sick and annual leave is utilized on a first-in, first-out basis.

The accrual of vested leave is properly an expense and a liability of the fiscal period in which earned, with vested leave taken charged to the prior period or current period liability as applicable.

We are unable to identify leave taken to prior or current periods. As a result, sick and annual leave expense in the operating statements reflect the costs of leave actually taken or paid at termination during the period, plus the increase or (decrease) in total liability between June 30, 1986 and June 30, 1987, which approximates the annual leave accrual.

8. Changes in Reporting

A) On July 1, 1986 the Associated Students of the University of Montana accounting activity was moved from the Agency fund group to the Designated fund group.

The movement was made as the result of an Attorney General's opinion.

The movement had the effect of increasing both revenue and expense in the Designated funds with a corresponding reduction in Agency funds of $404,000 and $526,000 in fiscal year 1986 and 1987 respectively.

B) In January of 1987 the Montana State Investment Division changed their internal procedures to require that all investments in the Short Term Investment Pool (STIP) be made from a single accounting entity.

Each fund now transfers their investable funds to an investment pool entity within the Plant fund group and receives an investment receivable for the principal transferred. The pool records an offsetting pooled investment payable. Investments are then made from the pool.

Investment earnings are received as revenue in the pool and subsequently moved to the investing fund.

Interfund payables/receivables have been eliminated. The pooled investments are shown as an investment of the applicable fund on these financial statements. A residual balance of $36,030 remains which represents the difference between actual funds transfered to the pool for investment and funds invested in STIP. This amount is shown as a Due to/from within retirement of indebtedness, as it is impractical to allocate to each fund.

On January 31, 1986, the "M" Store operation was discontinued and all inventory on hand sold as a package to the Associated Students' Store, a private non-profit corporation. The purchaser gave the University of Montana a Promissory Note for the total purchase price of $50,000. The Note is to be paid in fifteen equal installments of $3,333.34 commencing January 31, 1986, and thereafter on April 30, July 31 and January 31 of each year until paid. This operation was previously reported as a part of the Field House activity within Designated Funds. The inventory sale is reported as current year revenue in Designated Funds.

In 1986, we have for the first time recorded Sick and Annual Leave at the operating level. The expense for FY 86 is included in the personnel costs for operations. In previous financial reports, this item was reported at the fund level as a separate line item.

9. Federal Aid Fees

The University assesses a fee to cover administrative costs of the National Direct Student Loan Fund (NDSL) and federal student aid programs.

Federal regulations permit the entire fee to be charged to a single program or distributed equally, or unequally, to the various programs at the agency's option.

The University did not consistently charge administrative costs to the student loan or federal

aid programs. Administrative costs charged to federal financial aid programs in fiscal years ending June 30, 1986 and June 30, 1987 were $91,732 and $98,931 respectively. The individual costs for each of the years are as follows:

	1985-86	1986-87
Pell	$ 12,115	$ 11,435
NDSL (Perkins)	-	-
SEOG	59,413	18,306
CWS	20,204	69,190
	$ 91,732	$ 98,931

10. Intangible Assets

Intangible assets consist entirely of computer software which are amortized on a straight-line method over a five-year period. The value reported is net of accumulated amortization of $67,917 at fiscal year ended June 30, 1987.

11. Extraordinary Item

In January of 1987 the Department of Education (D.O.E.) offered to discount $5,459,000 of College Housing Bonds held by D.O.E. and cancel and return them for cash in the amount of $3,785,154. Using funds from various Auxiliary accounts together with a loan from the General fund the University paid D.O.E., the cash and the bonds were cancelled at a discount of $1,673,846.

At the time of cancellation the bonds had been defeased, and were no longer carried on the books as a liability of the University, but were in escrow with $3,342,804 worth of securities in trust and invested to make payments of principal as they became due. The cancellation of the bonds made the pledged securities and investment income therefrom over the life of the trust available to the University. While purchase of the discounted bonds, which were not carried as a liability, and acquisition of rights to the securities, which had been placed in trust for payment thereof, resulted in a $442,351 loss in the current fiscal period, this loss will be exceeded by the long term gain on the high yield securities being deferred to future periods.

UNIVERSITY OF MONTANA
JUNE 30, 1987
SCHEDULE OF STUDENT FULL-TIME EQUIVALENTS

	Total FTEs	Unrestricted FTEs	Restricted FTEs
Summer '86			
Lower Division	368	368	--
Upper Division	622	622	--
Graduate	389	376	13
Total	1,379	1,366	13
Autumn '86			
Lower Division	4,814	4,804	10
Upper Division	2,215	2,215	--
Graduate	821	788	33
Total	7,850	7,807	43
Winter '87			
Lower Division	4,544	4,526	18
Upper Division	2,362	2,362	--
Graduate	833	800	33
Total	7,739	7,688	51
Spring '87			
Lower Division	3,868	3,856	12
Upper Division	2,395	2,395	--
Graduate	813	780	33
Total	7,076	7,031	45

Compiled by the University of Montana

UNIVERSITY OF MONTANA
JUNE 30, 1986
SCHEDULE OF STUDENT FULL-TIME EQUIVALENTS

	Total FTEs	Unrestricted FTEs	Restricted FTEs
Summer '85			
Lower Division	355	355	--
Upper Division	653	653	--
Graduate	367	339	28
Total	1,375	1,347	28
Autumn '85			
Lower Division	4,963	4,953	10
Upper Division	2,211	2,211	--
Graduate	822	792	30
Total	7,996	7,956	40
Winter '86			
Lower Division	4,665	4,665	--
Upper Division	2,383	2,383	--
Graduate	828	800	28
Total	7,876	7,848	28
Spring '86			
Lower Division	3,924	3,919	5
Upper Division	2,560	2,560	--
Graduate	822	796	26
Total	7,306	7,275	31

Compiled by the University of Montana

UNIVERSITY RESPONSE

University of Montana
Controller's Office • Missoula, Montana 59812 • (406) 243-

June 3, 1988

Scott A. Seacat
Legislative Auditor
State Capitol
Helena, Montana 59620

Dear Scott:

Enclosed please find the University's responses to the Discussion Draft of the Financial Compliance Audit for the two fiscal years ended June 30, 1987.

Please contact me if you have any questions regarding this response.

Best Regards,

K.M. Cotton

K.M.Cotton, Controller

cc Jack Noble, Deputy Commissioner for Management and Fiscal Affairs
Glen I. Williams, Vice President for Fiscal Affairs
George L. Mitchell, Director of Financial Services
Sylvia Weisenburger, Director, Internal Control

Equal Opportunity in Education and Employment

RECOMMENDATION #1

WE RECOMMEND THE UNIVERSITY:

A. REMOVE OBSOLETE ITEMS FROM INVENTORY.

B. DETERMINE AND DOCUMENT THE COST PER UNIT FOR INVENTORY ITEMS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATIONS, and is presently engaged in implementation. With the assistance of a professional consultant, obsolete items and items which are excessive inventory as well as items which should be purchased as needed rather than carried in inventory have been identified. Computerized lists of obsolete and excess inventory to be disposed of have been prepared, current market value of items thereon has been obtained from industry sources, and the Property and Supply Bureau of the Central Stores/Surplus Property Program of the Procurement and Printing Division of the Department of Administration has been requested to handle the sale of all property to be removed from inventory.

RECOMMENDATION #2

WE RECOMMEND THE UNIVERSITY:

A. DOCUMENT INVENTORY PROCEDURES AT THE PHYSICAL PLANT INCLUDING GUIDELINES FOR COUNT VERIFICATION.

B. IMPLEMENT PROCEDURES TO PROVIDE FOR SUPERVISION AND REVIEW OF DATA INPUT TO THE INVENTORY SYSTEM.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION, and will arrange for the preparation of written procedures for inventory as well as guidelines for count verification at the Physical Plant, and supervision and review of data entered into inventory will be assigned to an employee who is not a member of the physical count team.

RECOMMENDATION #3

WE RECOMMEND THE UNIVERSITY:

A: ALLOCATE RESOURCES TO PROPERLY VALUE CHEMISTRY STORES INVENTORY.

B. IMPLEMENT ADDITIONAL PROCEDURES TO PROVIDE FOR ACCURATE PHYSICAL COUNTS OF CHEMISTRY STORES INVENTORY.

C. IMPLEMENT PROCEDURES TO ENSURE CHEMISTRY STORES ISSUANCE RECORDS ARE ACCURATE.

D. SEGREGATE CURRENT AND OBSOLETE CHEMISTRY STORES INVENTORIES.

RESPONSE:

THE UNIVERSITY PARTIALLY CONCURS WITH THE RECOMMENDATIONS.

A. We concur with the recommendation and are considering the feasibility of engaging an outside consultant to develop an inventory system, based on dBase III to properly handle Chemistry Stores accounting.

B. We concur with the recommendations and revised counting procedures have been developed for use in FY 88. We believe those new procedures will resolve the problem of accurately counting the inventory.

C. We do not concur with the recommendation. To adequately implement procedures to ensure issuance records are accurate would require a more tightly controlled inventory which in turn requires additional staffing. We do not believe that losses are occurring which would justify tighter control of issuance, nor do we believe it is a good time to raise prices which would be necessary to support additional staff. The alternative would be to reduce hours of service, and we do not find that an acceptable solution when unanticipated needs develop in conjunction with both teaching and research laboratories.

D. We concur with the recommendation and are prominently labelling areas for donated or obsolete materials.

RECOMMENDATION #4

WE RECOMMEND THE UNIVERSITY CONTINUE TO PROPERLY ACCOUNT FOR REVENUES RESULTING FROM LOST LIBRARY BOOKS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION, and will continue to account for cash or receivables relative to lost library books as revenues into a designated fund and not as an abatement of expenditure.

RECOMMENDATION #5

WE RECOMMEND THE UNIVERSITY ADJUST ITS FINANCIAL RECORDS TO REFLECT THE VALUE OF THE STADIUM IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RESPONSE, and the financial records

will be adjusted to reflect the actual value of the stadium at $4,098,388. This is the value determined by the University of Montana Foundation auditors and includes actual cash outlays and in-kind contributions.

RECOMMENDATION #6

WE RECOMMEND THE UNIVERSITY CONTINUE ITS EFFORTS TO ADEQUATELY CONTROL AND ACCURATELY ACCOUNT FOR ITS FIXED ASSETS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION, and will continue its efforts to control and safeguard property. It is a fact, however, that the institutional capacity to respond in this area of endeavor is impaired by limited resources and problems of greater priority. It is most strongly recommended that serious consideration be given to the Commissioner of Higher Education's proposal that the state's definition of "capital asset" be revised upward from $200 to $1,000. Items of small value constitute 67% of the total number of items, but only 4% of the value, and they can be protected without having to formally account for them in a time consuming and expensive way.

RECOMMENDATION #7

WE RECOMMEND THE UNIVERSITY IMPLEMENT PROCEDURES TO ENSURE ACCOUNTING TRANSACTIONS ARE RECORDED ACCURATELY.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION, and we are in the latter phase of a major accounting system implementation and will began to improve our review of transactions as well as increase our staff and user training in an attempt to reduce the incidence of initial error.

RECOMMENDATION #8

WE RECOMMEND THE UNIVERSITY:

A. FOLLOW ITS ESTABLISHED PROCEDURES FOR COMPLETING GSL WORKSHEETS.

B. IMPLEMENT WRITTEN PROCEDURES TO IMPROVE GSL APPLICATION REVIEWS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATIONS, and have re-affirmed the procedures with the Financial Aid staff who complete GSL worksheets. We are also reviewing our current written procedures and will revise those procedures if necessary to improve GSL application reviews.

RECOMMENDATION #9

WE RECOMMEND THE UNIVERSITY SUBMIT STUDENT CONFIRMATION REPORTS AND NOTIFY LENDERS OF ENROLLMENT STATUS CHANGES IN ACCORDANCE WITH FEDERAL REGULATIONS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. Quarterly reports to the central processor during the academic year allow for reporting student enrollment within the sixty day requirement for those students who complete the term. For those students who withdraw during the term, the Financial Aid Office will re-establish the procedure to notify the lender as soon as the information is available from the Registrar's Office.

RECOMMENDATION #10

WE RECOMMEND THE UNIVERSITY:

A. OBTAIN WRITTEN EXTENSIONS FOR THOSE REPORTS WHICH CANNOT BE SUBMITTED ON TIME.

B. ALLOCATE THE RESOURCES NECESSARY TO ENSURE GRANT REPORTS ARE COMPLETED IN A TIMELY MANNER.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATIONS. As resources are available, we will attempt to obtain written extensions whenever possible when reports are expected to be late.

RECOMMENDATION #11

WE RECOMMEND THE UNIVERSITY BILL REIMBURSEMENT GRANTS AND CONTRACTS ONLY FOR ACTUAL EXPENDITURES INCURRED.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. As a normal practice, we bill only for those expenditures incurred. We will remind our staff of the importance of this procedure to ensure future billings are billed for the exact amounts expended.

RECOMMENDATION #12

WE RECOMMEND THE UNIVERSITY COMPLY WITH ITS POLICIES REGARDING ANNUAL LEAVE BALANCES.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. University policies will be revised consistent with the Commissioner of Higher Education and Department of Administration policies which require elimination of excess annual leave for academic administrators on a calendar year rather than a fiscal year.

RECOMMENDATION #13

WE RECOMMEND THE UNIVERSITY CONTINUE MONITORING TELEPHONE BILLS TO ENSURE CALLS ARE FOR LEGITIMATE STATE BUSINESS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION, and will continue our present practices of monitoring telephone usage. However, manual examination of thousands of individual monthly telephone bills is not practical or effective although periodic random audits provide useful verification procedures.

The University's telephone switch generates detailed usage information to support telephone management functions, including monitoring and analysis of telephone use to detect abuse. Presently the information generated by the telephone switch is collected by Centel, the company which maintains the switch. That information is forwarded to the State Telecommunications Bureau for use in managing the state telephone network and to generate bills for network use. While the University needs that information for similar purposes, the Telecommunication Bureau has not provided it despite repeated requests. Presently, the Telecommunications Bureau is installing new management software which was selected in cooperation with the University System. That software can provide the information needed to monitor telephone use as recommended and we will continue of efforts to obtain that information.

RECOMMENDATION #14

WE RECOMMEND THE UNIVERSITY IMPLEMENT FURTHER PROCEDURES TO ENSURE STUDENTS ARE PAID THE PROPER AMOUNT FOR HOURS ACTUALLY WORKED.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. The mathematical accuracy on each time card is checked after the payroll is processed. If errors are discovered, adjustments are made when deemed necessary and practicable. We will issue instructions to our payroll department that all underpayments to employees be adjusted to the actual amount earned regardless of the amount.

RECOMMENDATION #15

WE RECOMMEND THE UNIVERSITY CONTINUE TO ENSURE ITS PERSONNEL TECHNICIANS RECEIVE THE TRAINING NECESSARY TO MAINTAIN ACCURATE LEAVE RECORDS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. The errors cited in the audit report were made by an employee who no longer works in the Human Resources Office. We believe current employees are very competent in their duties and have the technical expertise and knowledge necessary to perform those duties. Methods and procedures are continuously reviewed to ensure the records are accurately matintained.

RECOMMENDATION #16

WE RECOMMEND THE UNIVERSITY COMMUNICATE COMPENSATORY TIME POLICIES TO AFFECTED EMPLOYEES.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. All policies are published and routed to campus departments to be read by employees and placed in the University policies manual. When resources are available to the Human Resources Department to provide training activities to University employees, personnel policies and procedures will be one of the main topics. Meanwhile, training in matters such as compensatory time will continue to be done on a one-to-one basis with the supervisors and employees as situations arise.

RECOMMENDATION #17

WE RECOMMEND THE UNIVERSITY CALCULATE AND REPORT STUDENT FTES IN ACCORDANCE WITH POLICIES ESTABLISHED BY THE COMMISSIONER OF HIGHER EDUCATION.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION, and will review the policies established by the Commissioner of Higher Education and make recommendations for change if we believe that is necessary.

RECOMMENDATION #18

WE RECOMMEND THE UNIVERSITY DEVELOP ACCOUNTS RECEIVABLE BILLING POLICIES AND PROCEDURES FOR DEPARTMENTS CONTROLLING THEIR OWN RECEIVABLES OR CENTRALIZE ALL RECEIVABLES THROUGH THE CONTROLLER'S OFFICE.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION, and will develop policies for billing, and operational procedures for those areas administering their own accounts receivable. It is our intent over time to centralize all receivables in the Controller's Office.